

Fiscal Status Report For the Year Ended June 30, 2008

THE CITADEL
THE MILITARY COLLEGE OF SOUTH CAROLINA

Lieutenant General John W. Rosa, USAF, Ret.
President

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THE CITADEL

THE MILITARY COLLEGE OF SOUTH CAROLINA

15 October 2008

VICE PRESIDENT FOR
FINANCE AND BUSINESS AFFAIRS

MEMORANDUM

To: MG Arthur H. Baiden III, AUS, Retired
Chairman, The Citadel Board of Visitors

Subj: Fiscal Status Report for Fiscal Year 2007-2008

I am pleased to present the College's Fiscal Status report for the year ending 30 June 2008. This report includes the College's audited financial statements completed by the firm of Elliott Davis, LLC. They have given us a "clean" opinion. Our audited financial statements include the financial statements for our component units - The Citadel Trust, The Citadel Foundation (TCF), and The Citadel Brigadier Foundation (TCBF). Each is presented separately, though The Citadel and The Citadel Trust are totaled on the same page because The Citadel Trust is a blended component unit of the College. An outsider viewing The Citadel has a complete picture of the College and its closely related foundations when viewing these statements.

The Fiscal Status Report is divided into two sections: Statistical Data and the Audited Financial Statements and Accompanying Notes. The statistical data provides a quick reference for the financial status of the College. We have prepared the data using The Citadel and its blended component unit, The Citadel Trust, since both entities are so closely intertwined. The statistics do not include data from TCF and TCBF since they are not under the control of The Citadel Board of Visitors.

The Statistical Data section include various charts and graphs related to enrollment, spending and income, bonded debt and debt coverage, and ratios comparing The Citadel to Moody's Investors Services median ratings for A1 rated schools. This is a very important section since this is how outside entities look at the College's overall financial health. Moody's visited the campus in late June 2007 and reaffirmed their stable A1 rating of the College. During that visit, Management explained that while student fees were pledged to support the construction of the west side grandstands and the construction of the Readiness Center/ Press Box/Sky Box facility, the College expected gifts and naming rights to cover all but \$190,000 of the annual debt service for the bonds issued for this work.

Specific items of note within the statistical section are:

- State Appropriations and Gross Student Fees chart (page 17) shows that the College has had to raise fees as a result of decreasing State appropriations. Note that as State appropriations grew during the boom of the late 90's, student fees reflected a much more modest rate of growth. The decrease in student fees in 1999 reflects the size of the cadet corps "valley" that occurred in 1999.
- Citadel expenses are reported by natural classification on page 18 and by function on page 19. The natural classification chart shows that compensation and benefits amount to approximately 53% of total expenses. The function chart shows that instructional spending comprises 25% of total expenses.
- Financial aid data (page 20) shows that the Financial Aid office made over 5,000 financial aid awards totaling more than \$24 million. (Individuals can receive more than one award). Note that the Athletic Department awarded over \$2.6 million in athletic grants-in-aid and the College abated an additional \$1.2 million of fees for out-of-state athletic grant recipients.

- The ratio section (pages 22- 25) compares The Citadel to Moody's A1 median.
 - The balance sheet ratios (page 22) are favorable with respect to A1 medians.
 - The three capital ratios (page 23) are unfavorable with respect to the A1 median, but take into account the pledged student fees, rather than the expected gifts and naming rights that will be used to repay stadium debt. Moody's analysts are aware that TCF has committed to provide \$6 million in gifts to assist in covering the debt service payments for the \$6 million athletic bond issued in 2005 and to provide \$600,000 per year for the debt service related to the \$8.7 million bond issued in 2006. It is expected that income from naming rights will be used to refinance the 2006 bond or pay the current debt service on that bond. Income from skyboxes and club sets is pledged to pay the debt service on the 2007 \$6 million bond issued in the current year to fund the completion of the skyboxes.
- Page 26 displays the amounts due on outstanding bonded debt. Note that payments on bonds total over \$75 million, yet debt service coverage remains well above the standard 110% coverage requirement.
- Page 27 displays the funds available in maintenance reserve accounts and various other debt service and sinking funds as Management works on funding the future.
- Activity of each auxiliary is displayed on pages 28 and 29. A key item is the \$1.6 million deficit fund balance in Athletics at the end of the year. This deficit relates to the accounting treatment of the Daktronics scoreboard in fiscal year 2007 when the anticipated revenues to repay the scoreboard over the life of the contract were recognized as deferred revenue and increased the liabilities of Athletics by \$1,530,000. Athletics recognized \$170,000 of revenue related to the scoreboard and will continue to recognize \$170,000 per year over the next eight years. The scoreboard asset is recorded in the Net Investment in Plant Fund.

The financial statements and the accompanying footnotes provide a detailed picture of the financial status of the College. The Management Discussion and Analysis (MD&A), which precedes the actual financial statements, is a required section that includes information prescribed by accounting standards. The primary purpose of MD&A is to report on changes from one year to the next. The renovation of Johnson Hagood Football Stadium, with additional funding provided by the current year \$6 million athletic facility bond issue, and the downturn in the financial markets that resulted in poor investment returns, stand out throughout this analytical comparison to the prior year's financial statements.

Overall, financial data indicates that the College is in good condition. We finished last fiscal year with an overall increase in net assets of approximately \$3.5 million. Fiscal year 2009 began with the barracks overflowing with cadets and the opening of the renovated Johnson Hagood Stadium. I believe that the fiscal status of The Citadel is excellent.

Sincerely,



Ralph P. Earhart
Interim Vice President for Finance
and Business Affairs

RPE/aa

THE CITADEL BOARD OF VISITORS

FY 2008-2009

MEMBERS

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Chairman

Colonel Glenn D. Addison

Vice Chairman

Colonel William E. Jenkinson III

Colonel Douglas A. Snyder

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Colonel William G. Kastner

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Secretary to the Board

EX OFFICIO BOARD MEMBERS

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Governor of South Carolina

Major General Stanhope Spears

Adjutant General of South Carolina

The Honorable Jim Rex

State Superintendent of Education

EMERITI MEMBER

Colonel Leonard C. Fulghum, Jr.

Member Emeritus

SENIOR ADMINISTRATIVE STAFF OF THE CITADEL

Lieutenant General John W. Rosa, USAF, Ret.	President
Brigadier General Samuel M. Hines, Jr.	Provost and Dean of the College
Colonel Gregory A. Stone, USA, Ret.	Commandant of Cadets
Colonel George D. Yeatts	V.P. for Facilities and Engineering
Lieutenant Colonel Ralph P. Earhart	Interim V.P. for Finance and Business Affairs
Mr. Larry W. Leckonby	Director of Athletics
Colonel Lawrence J. Perez	V.P. of External Affairs
Colonel Joseph W. Trez, USA, Ret.	Director of Staff

FINANCIAL STAFF OF THE CITADEL

Lieutenant Colonel Ralph P. Earhart, CPA	Dir., Financial Services	(843) 953-5025
Ms. Susan B. Reynolds, CPA	Accounting Manager	(843) 953-3176
Colonel James N. Openshaw, USAF, Ret.	Budget Officer	(843) 953-7184
Ms. Diana L. Shoaf	Treasurer	(843) 953-5254
Mr. John L. Walker	Dir., Procurement Services	(843) 953-5109
Major F. Gerald Chamness	Dir., Auxiliary Services	(843) 953-5279

A Brief History of The Citadel

The Origin

In 1822, the South Carolina Legislature passed an "Act to Establish a Competent Force to act as a Municipal Guard for the Protection of the City of Charleston and Vicinity." Land on the north end of Marion Square was selected for an arsenal and guardhouse, and in 1829, the architect, Frederick Wesner, completed the building which was known as The Citadel. A similar facility was constructed in Columbia, South Carolina, which was known as The Arsenal. State troops occupied both sites at a cost of \$24,000 a year.

Governor John P. Richardson felt that guard duties should be combined with a system of education. On December 20, 1842, the South Carolina Legislature passed an act establishing the South Carolina Military Academy. The Citadel and The Arsenal were converted into educational institutions, and students replaced the state troops. In 1845, the role of The Arsenal was changed to the instruction of freshmen. As a result, cadets spent their first year in Columbia and transferred to The Citadel for the remaining three years. The South Carolina Military Academy became known for its high academic standards and strict military discipline.

Civil War Period

Enrollment in The South Carolina Military Academy increased from thirty-four students in 1843 to 296 in 1864. The \$200 tuition in 1843 increased to \$1,200 in 1864. When South Carolina seceded from the Union in December 1860, Major Robert Anderson moved his garrison of U.S. troops to Fort Sumter and requested reinforcements from the federal government. On January 9, 1861, Citadel cadets stationed on Morris Island fired on the U.S. steamer, the *Star of the West*, as it attempted to supply Fort Sumter with troops and supplies. This was the first overt act of the war.

On January 28, 1861, the Corps of Cadets was made part of the military organization of the state and was known as The Battalion of State Cadets. The Arsenal and The Citadel continued to operate as military academies; however, classes were often disrupted when the governor called the cadets into military service. Manning heavy guns, mounting guard duty, and escorting prisoners were among the services performed by the cadets. On February 18, 1865, The Citadel ceased operation as a college when Union troops entered Charleston and occupied the site. The Arsenal was burned by Sherman's troops and never reopened.

Reopening

In January 1882, The Citadel buildings were returned to the State of South Carolina after seventeen years in the possession of the United States government. In the same month the legislature of South Carolina passed an act to reopen the college. The 1882 session began with an enrollment of 185 cadets.

Name Change

The name of the college was officially changed in 1910 to The Citadel, The Military College of South Carolina. The word *Academy* had become synonymous with secondary schools, and the public had the misconception that the South Carolina Military Academy was a preparatory school.

New Campus

The Citadel had outgrown its campus on Marion Square, despite numerous building additions, and could accommodate only 325 students. In 1918, the City of Charleston gave the State of South Carolina 176 acres on the banks of the Ashley River for a new campus. In 1922, the college moved to its current location.

Today, the picturesque campus contains twenty-four major buildings. In addition to a Corps of approximately 1900 cadets—coeducational since 1996—the College of Graduate and Professional Studies offers undergraduate and graduate degree programs during the evening and summer. *The U.S. News & World Report* has ranked The Citadel among the best colleges in the region in its surveys of "America's Best Colleges."

Military Service

As early as 1846, Citadel cadets served as drill instructors for the recruits of South Carolina's Palmetto Regiment prior to the regiment's departure for the Mexican War.

During the Civil War, the Corps of Cadets participated in eight engagements. The flag of the Corps of Cadets includes eight battle streamers representing those engagements and one streamer representing the Confederate States Army.

In the war with Spain in 1898, more Citadel alumni volunteered for service than were needed. In World War I, Citadel graduates were among the first contingents of American troops to fight with the English and French divisions. In major conflicts since World War II, Citadel cadets have continued to perform military service for their country. Twenty-three cadets served on active duty as members of the National Guard and Reservists during Operation Desert Storm.

Archives and Museum

The Archives was founded in 1966 when General Mark W. Clark donated the papers relating to his military career. Today, there are over three hundred collections in the Archives which pertain to The Citadel or have military significance. Some notable collections include the papers of Pulitzer Prize winning historian, Bruce Catton, and the Civil War letters of 1857 Citadel graduate, General Ellison Capers. Authors and scholars from the United States and Europe frequently visit the Archives to conduct research.

The Museum features the history of The Citadel from its founding in 1842 to the present. Photographs from the Archives highlight the exhibits that portray the social, military, academic, and athletic aspects of cadet life. Citadel rings from 1895 to the present are on display. Citadel graduates who lost their lives in major conflicts since World War II are memorialized in photograph albums in the Museum.

General Information

Accreditation

The Citadel is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools, the recognized regional accrediting body in the eleven U.S. Southern states (Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, Texas and Virginia) and in Latin America for those institutions of higher education that award associate, baccalaureate, master's, or doctoral degrees. The SACS web address is <http://www.sacs.org>. Information on the status of The Citadel's accreditation may be obtained from the Commission on Colleges by calling 404-679-4500 or by writing to the SACS home office, 1866 Southern Lane, Decatur, GA 30033. The Citadel is accredited by SACS to award the bachelor's, master's, and specialist degrees.

Civil Engineering and Electrical Engineering Programs are accredited by the Engineering Accreditation Commission/Accreditation Board for Engineering and Technology (ABET), 111 Market Place, Suite 1050, Baltimore, MD 21202-7700 - telephone: (410) 625-2238, fax (410) 625-2238. The web address is www.abet.org or email them at eac@abet.org.

The undergraduate program in Business Administration and the program leading to the Master of Business Administration are accredited by the Association to Advance Collegiate Schools of Business.

Programs for the preparation of secondary teachers at the bachelor's level, for the preparation of secondary and special education teachers at the master's level, for the preparation of guidance counselors at the master's and specialist degree levels, and for the preparation of school superintendents at the specialist degree level are accredited by the National Council for Accreditation of Teacher Education.

The head of the School of Education serves as the Director of Teacher Education.

The B.S. Chemistry Program is accredited by the American Chemical Society. The Citadel's School Psychology Program has been granted full approval by the National Association of School Psychologists. The Clinical Counseling program is accredited by the Master's in Psychology Accreditation Council.

Statement of Vision

Achieving excellence in the education of principled leaders.

Core Values

Academics: We produce graduates who have insight into the issues, ideas and values that are important to society and possess the skills necessary to deal with them successfully.

Duty: We emphasize the importance of individual accountability and the moral obligation of responsibility for the welfare of others.

Honor: We adhere to a code which teaches that uncompromising personal integrity is the primary guide in all situations.

Morality: We believe that an individual's character is of utmost importance and, therefore, we provide training which emphasizes ethical principles and core values.

Discipline: We operate a leadership laboratory which emphasizes a structured environment, acceptance of responsibility, self-confidence and service to others.

Diversity: We promote diversity in all segments of our campus community and in all aspects of college life.

Mission

The Citadel's mission is to educate and prepare graduates to become principled leaders in all walks of life by instilling the core values of The Citadel in a challenging intellectual environment. The Citadel strives to produce graduates who have insight into issues, ideas, and values that are of importance to society. It is equally important that Citadel graduates are capable of both critical and creative thinking, have effective communication skills can apply abstract concepts to concrete situations, and possess the methodological skills needed to gather and analyze information.

Throughout its history, The Citadel's primary purpose has been to educate undergraduates as members of the South Carolina Corps of Cadets and to prepare them for post-graduate positions of leadership through academic programs of recognized excellence supported by the best features of a structured military environment. The cadet lifestyle provides a disciplined environment that supports the growth and development of character, physical fitness, and moral and ethical principles.

A complementary purpose of The Citadel, realized through the College of Graduate and Professional Studies, is to provide the citizens of the Lowcountry and the State of South Carolina opportunities for professional development by offering a broad range of educational programs of recognized excellence at both the graduate and undergraduate levels. These programs are designed to accommodate the needs of non-traditional students seeking traditional and demanding academic challenges.

Institutional Characteristics

The Citadel is a coeducational, comprehensive, state-assisted, four-year institution whose primary undergraduate student body consists of approximately 1,900 members of the Corps of Cadets, all of whom reside on campus. The primary service area for these students is regional, with approximately half of each freshman class coming from South Carolina. The Citadel, however, does draw undergraduate students from all parts of the United States and many foreign countries. The college offers a wide range of baccalaureate degree programs (Bachelor of Arts, Bachelor of Science, Bachelor of Science in Business Administration, Bachelor of Science in Civil Engineering, and Bachelor of Science in Electrical Engineering) in the humanities, social and natural sciences, business administration, engineering, and education. These academic programs prepare graduates of the Corps of Cadets for a variety of careers; about half of these graduates enter business and the professions, a third or more enter the military and government service, and the remainder go directly into graduate and professional study. Many graduates choose to pursue professional or graduate degrees later in their careers.

Through its undergraduate and graduate programs, the College of Graduate and Professional Studies serves a degree-seeking population of approximately 2,000. The primary service area is the South Carolina Lowcountry. The College of Graduate and Professional Studies offers three baccalaureate degree programs (Bachelor of Science in Business Administration, Bachelor of Science in Civil Engineering, and Bachelor of Science in Electrical Engineering) and six graduate degree programs (Master of Arts, Master of Science, Master of Arts in Teaching, Master of Education, Master of Business Administration, and Specialist in Education). Meeting the needs of the South Carolina Lowcountry in terms of instruction, public service, and research, including such initiatives as cooperative programs with other educational institutions, is an important part of The Citadel's mission.

Together, the Corps of Cadets and the College of Graduate and Professional Studies enroll approximately 4,000 students, about three-fourths of whom come from South Carolina.

In its education programs, The Citadel acknowledges and endorses the teacher-scholar ideal, recognizing that the excellence of all of its academic programs is dependent upon the quality of its faculty. This ideal is pursued through teaching and lecturing, researching, writing, publishing, and public service. The Citadel's faculty also address audiences beyond the college by sharing their knowledge with other scholars and with the public.

The Purpose of The Citadel's Military Environment

The Citadel seeks to provide the best qualities of a military and disciplined environment to support the growth and development of character, physical fitness, and moral and ethical principles, thereby preparing its students to meet the requirements of citizens and especially of leaders. From the first year, with the Fourth Class System, through the senior year, the military environment requires additional duties and responsibilities not normally found on a college campus.

The military environment at The Citadel also attempts to draw out and cultivate such values as truth, honor, integrity, and courage. Qualities of proper behavior and etiquette are stressed, and excellence in military bearing and appearance is taught. Whether in military or civilian life, the testimony of the value of this institution in service to the nation, state, and local communities is prominent.

SECTION I

General Information And Citadel Statistics

CORPS OF CADETS

Geographical Distribution

Alabama	12	Missouri	5
Alaska	1	Montana	2
Arizona	11	Nebraska	2
Arkansas	5	Nevada	3
California	50	New Hampshire	8
Colorado	8	New Jersey	53
Connecticut	14	New Mexico	5
Delaware	5	New York	47
District of Columbia	2	North Carolina	143
Florida	120	North Dakota	2
Georgia	142	Ohio	38
Hawaii	-	Oklahoma	4
Idaho	1	Oregon	2
Illinois	23	Pennsylvania	66
Indiana	11	Rhode Island	2
Iowa	1	South Carolina	865
Kansas	-	Tennessee	30
Kentucky	12	Texas	68
Louisiana	8	Utah	-
Maine	6	Vermont	1
Maryland	59	Virginia	81
Massachusetts	30	Washington	7
Michigan	20	West Virginia	3
Minnesota	4	Wisconsin	3
Mississippi	3	Wyoming	1
		APO and FPO	9
Total U.S. Cadets			1,998
Total Foreign Cadets			<u>47</u>
Grand Total			<u><u>2,045</u></u>

SOUTH CAROLINA CADETS

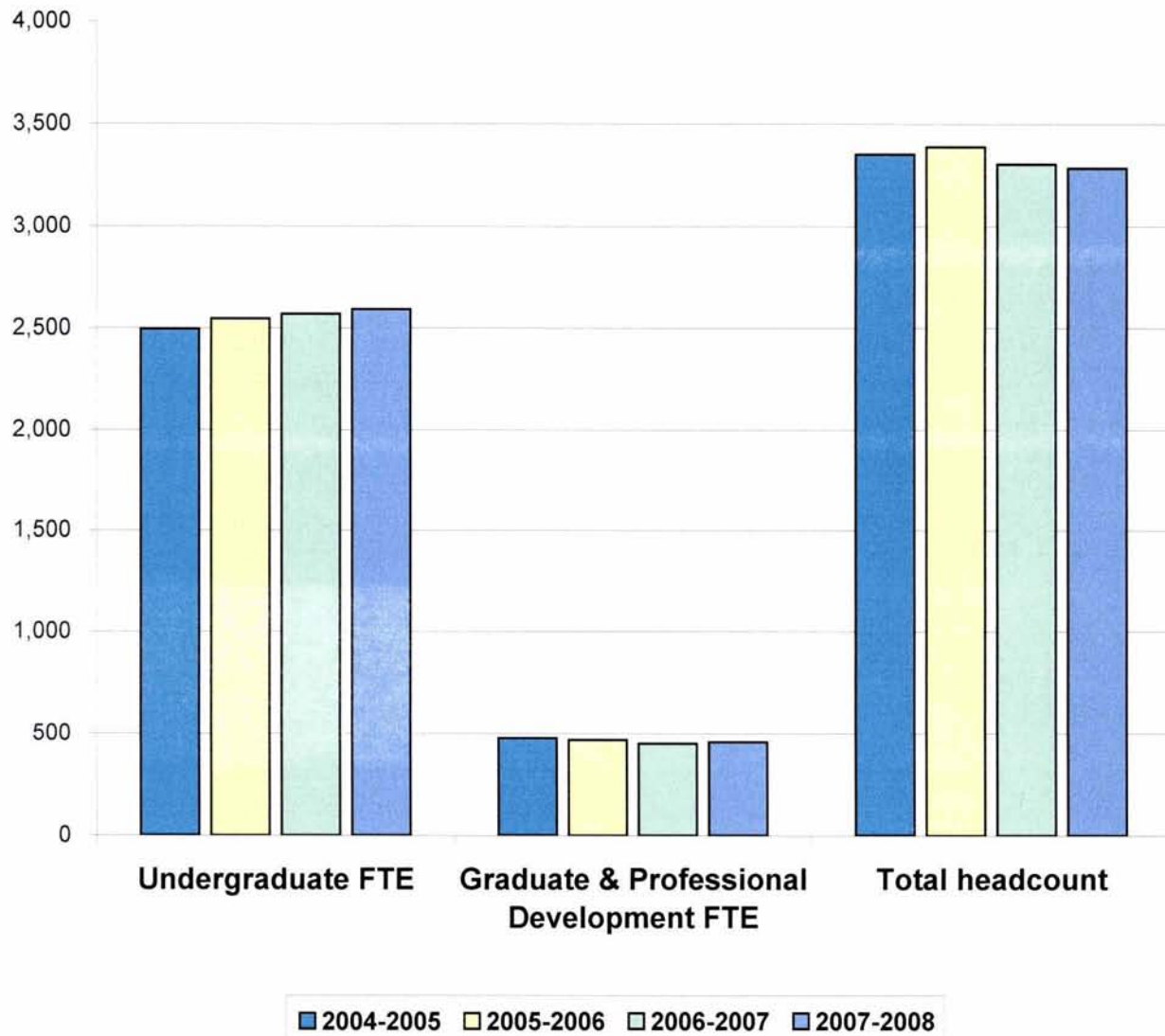
By County

Abbeville	5	Greenwood	18
Aiken	18	Hampton	4
Allendale	-	Horry	24
Anderson	26	Jasper	2
Bamberg	8	Kershaw	9
Barnwell	1	Lancaster	1
Beaufort	28	Laurens	6
Berkeley	63	Lee	1
Calhoun	4	Lexington	71
Charleston	146	Marlboro	4
Cherokee	3	McCormick	1
Chester	5	Newberry	3
Chesterfield	2	Oconee	7
Clarendon	6	Orangeburg	15
Colleton	5	Pickens	9
Darlington	9	Richland	89
Dillon	6	Saluda	3
Dorchester	38	Spartanburg	25
Edgefield	3	Sumter	33
Fairfield	6	Union	1
Florence	31	Williamsburg	3
Georgetown	8	York	40
Greenville	75		

Total South Carolina Cadets

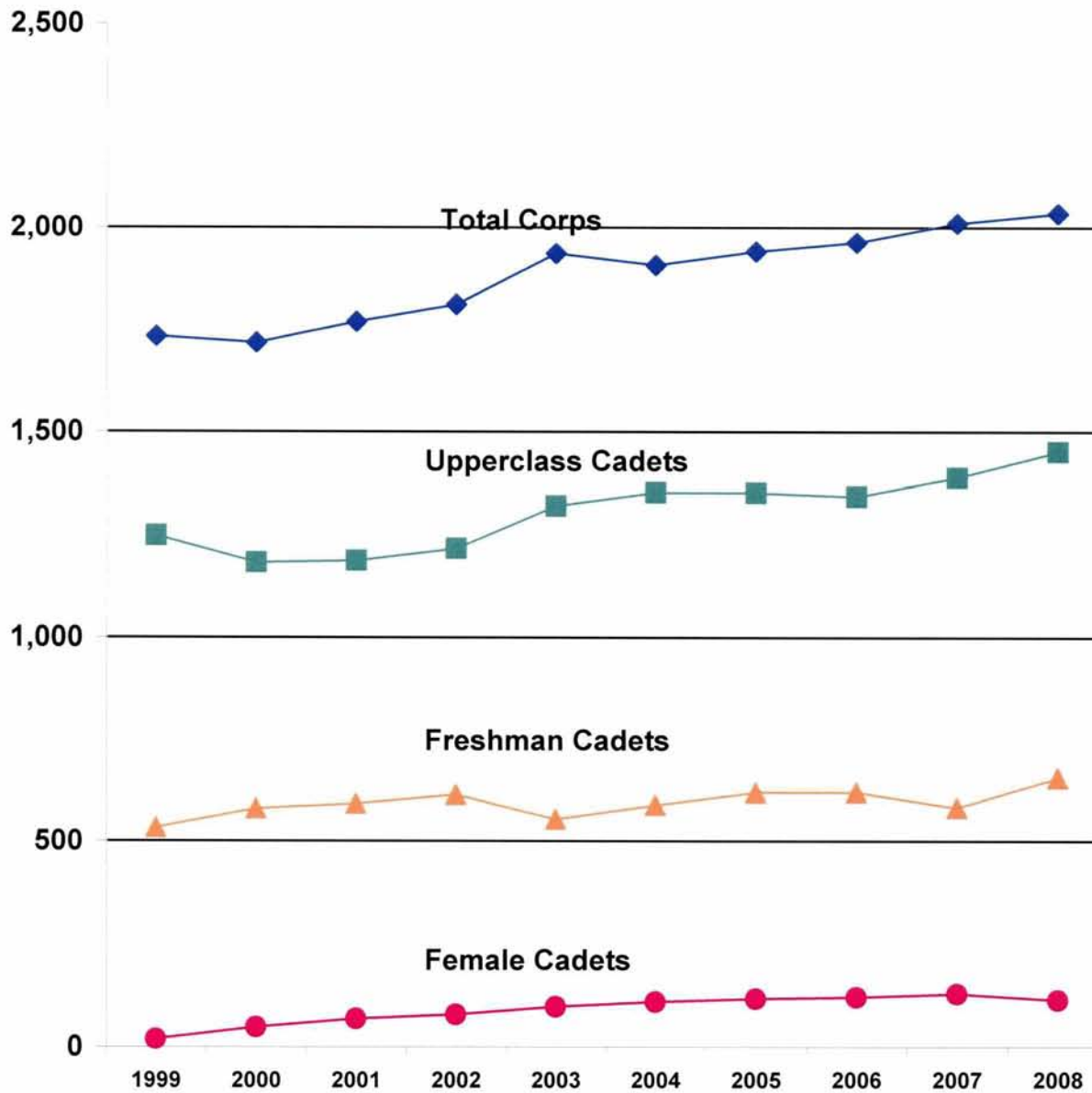
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THE CITADEL STUDENT BODY



	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>
Undergraduate FTE	2,495	2,544	2,566	2,589
Graduate & Professional Development FTE	477	468	449	457
Total headcount	3,351	3,386	3,302	3,283

CITADEL CADET CORPS SIZE



2008 CITADEL STUDENT FEES

	<u>In-State</u>	<u>Out-of-State</u>
<u>Tuition and Fees</u>		
Registration	\$ 25	\$ 25
Tuition	125	385
College fees	5,497	16,793
Technology fees	50	50
Athletic operation fees	1,688	1,688
Athletic facility fee	350	350
Subtotal	<u>7,735</u>	<u>19,291</u>
<u>Auxiliary Activity Fees</u>		
Room (Room \$1,110, Debt Service \$1,540 Technology \$50, Telephone \$30)	2,730	2,730
Board (20 meals/week)	2,660	2,660
Infirmery	500	500
Subtotal	<u>5,890</u>	<u>5,890</u>
Total of "comparable" fees	<u>\$ 13,625</u>	<u>\$ 25,181</u>
<u>Fees unique to The Citadel</u>		
Laundry & dry cleaning	\$ 500	\$ 500
<u>Deposits</u>		
Freshman	\$ 5,470	
Sophomore	\$ 1,630	
Junior	\$ 1,630	
Senior	\$ 1,630	

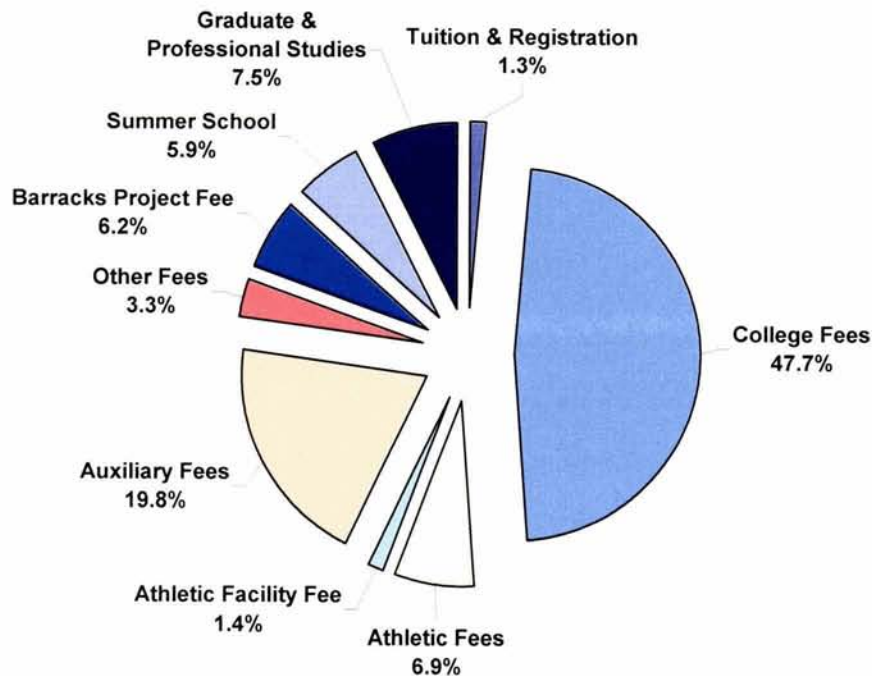
GRAND TOTAL ALL COSTS

<u>Class</u>	<u>In-State</u>	<u>Out-of-State</u>
Freshman	\$ 19,595	\$ 31,151
Sophomore	\$ 15,755	\$ 27,311
Junior	\$ 15,755	\$ 27,311
Senior	\$ 15,755	\$ 27,311

GRADUATE & PROFESSIONAL STUDIES & SUMMER SCHOOL

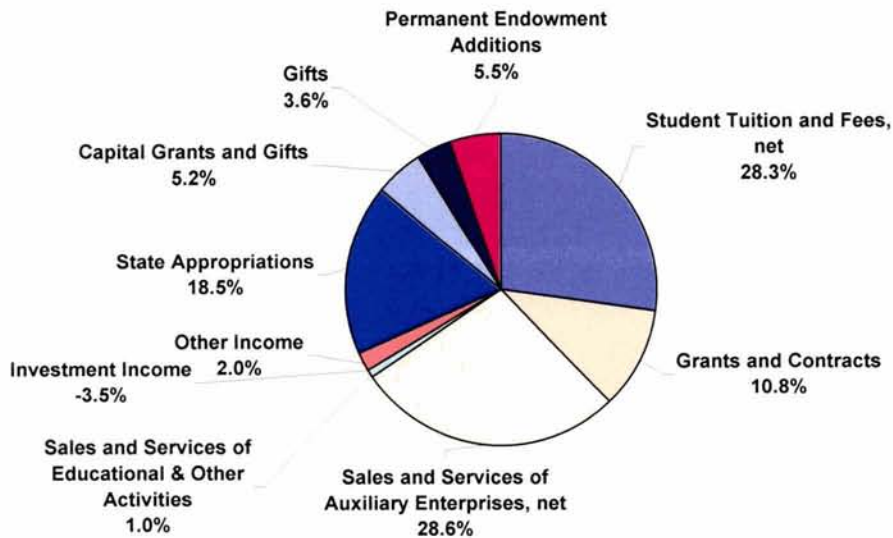
<u>Cost per credit hour</u>	<u>In-State</u>	<u>Out-of-State</u>
Graduate	\$ 280	\$ 503
Undergraduate	\$ 239	\$ 458
Professional Development	\$ 80	\$ 276

2008 CITADEL STUDENT FEES



Student Fees	For the Year Ended June 30,			
	2008	2007	Percent of total revenues	
			2008	2007
Athletic Facility Fee	\$ 696,610	\$ 610,175	1.4%	1.3%
Athletic Fees	3,433,160	3,222,852	6.9%	7.1%
Auxiliary Fees	9,854,435	9,375,301	19.8%	20.6%
Barracks Project Fee	3,082,029	3,064,617	6.2%	6.7%
College Fees	23,769,596	21,260,127	47.7%	46.6%
Graduate & Professional Studies	3,712,927	3,428,688	7.5%	7.5%
Other Fees	1,663,169	1,348,329	3.3%	3.0%
Summer School	2,956,019	2,687,533	5.9%	5.9%
Tuition & Registration	648,659	585,525	1.3%	1.3%
Total Fees	<u>\$ 49,816,604</u>	<u>\$ 45,583,147</u>	<u>100.0%</u>	<u>100.0%</u>

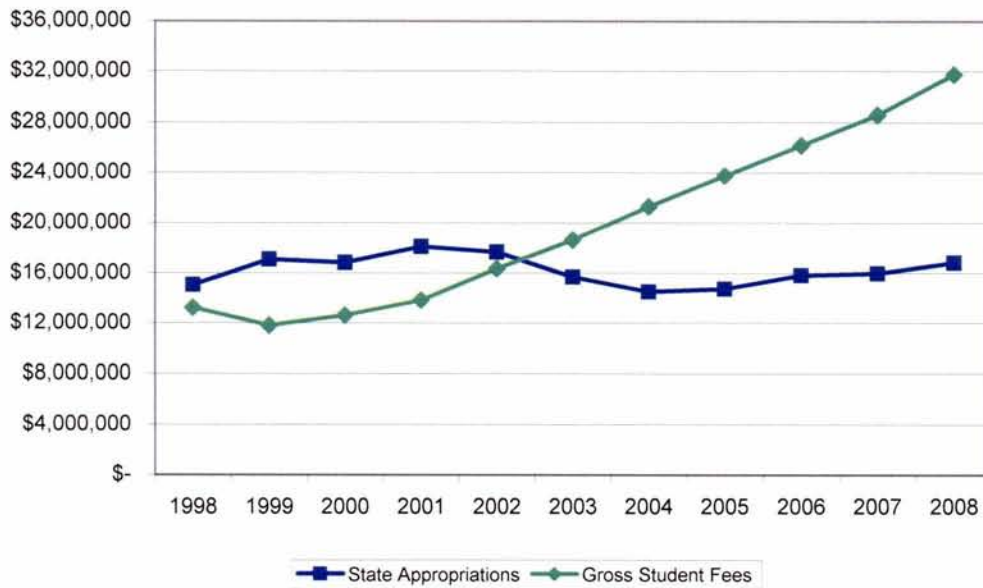
Citadel Revenues FY 2008



For the Year Ended June 30,

	2008	2007	Percent of total revenues	
			2008	2007
Revenues				
Student tuition and fees, net	\$ 25,862,630	\$ 23,318,294	28.3%	24.2%
Grants and contracts	9,872,731	9,358,491	10.8%	9.7%
Sales and services of auxiliary enterprises, net	26,195,430	25,451,269	28.6%	26.4%
Sales and services of educational & other activities	883,381	822,558	1.0%	0.9%
Investment income	(3,196,418)	11,215,811	-3.5%	11.6%
Other income	1,816,252	1,228,559	2.0%	1.3%
State appropriations	16,895,424	16,025,367	18.5%	16.6%
Capital grants and gifts	4,764,809	4,509,558	5.2%	4.7%
Gifts	3,301,900	3,018,184	3.6%	3.1%
Permanent endowment additions	5,038,903	1,435,844	5.5%	1.5%
Total revenue	<u>\$ 91,435,042</u>	<u>96,383,935</u>	<u>100.0%</u>	<u>100.0%</u>

State Appropriations and Gross Student Fees

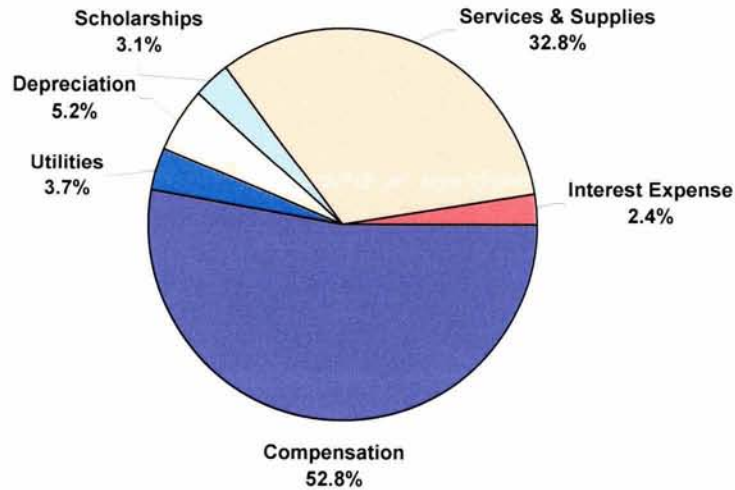


	State Appropriations	Gross Student Fees	FTE Students
1998	15,118,103	13,258,971	2,843
1999	17,144,363	11,838,420	2,866
2000	16,890,542	12,658,030	2,899
2001	18,159,672	13,863,523	2,920
2002	17,710,187	16,412,094	3,073
2003	15,754,606	18,683,098	3,072
2004	14,558,490	21,351,029	3,036
2005	14,780,853	23,795,129	2,972
2006	15,859,567	26,240,622	3,012
2007	16,025,367	28,624,953	3,015
2008	16,895,424	31,788,332	3,046

Note: Gross student fees are total student fees charged to student accounts. Net student fees, as shown on the previous page, are gross student fees less scholarships applied to student accounts.

Citadel Expenses FY 2008

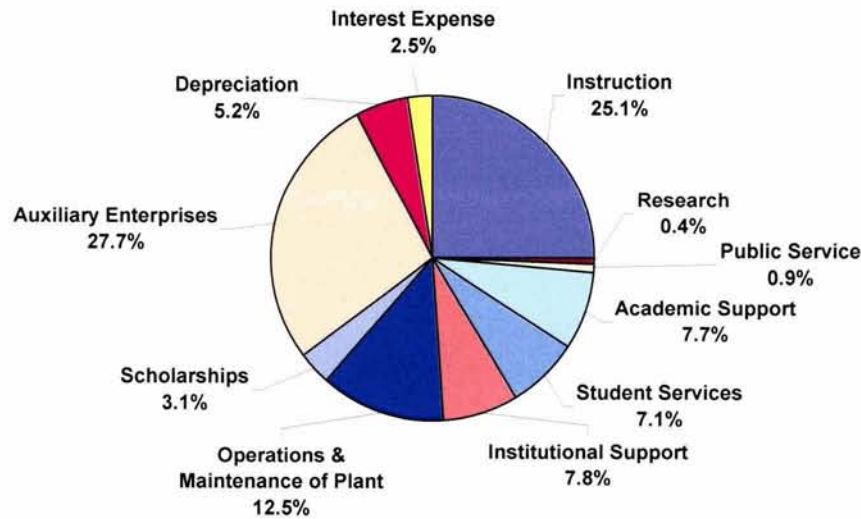
By Natural Classification



Expenses	For the Year Ended June 30,			
	2008	2007	Percent of total expenses	
			2008	2007
Compensation and benefits	\$ 46,395,803	\$ 43,495,521	52.8%	51.6%
Services and supplies	28,810,344	28,529,779	32.8%	33.8%
Utilities	3,278,393	3,031,542	3.7%	3.6%
Scholarships	2,706,411	2,602,356	3.1%	3.1%
Depreciation	4,570,981	4,457,776	5.2%	5.3%
Interest	2,173,387	2,176,018	2.4%	2.6%
Total expenses	<u>\$ 87,935,319</u>	<u>\$ 84,292,992</u>	<u>100.0%</u>	<u>100.0%</u>

Citadel Expenses FY 2008

By Function



For the Year Ended June 30,

Expenses	2008	2007	Percent of total expenses	
			2008	2007
Instruction	\$ 22,070,961	\$ 19,893,992	25.1%	23.6%
Research	345,925	418,274	0.4%	0.5%
Public service	832,785	1,090,163	0.9%	1.3%
Academic support	6,747,833	6,302,180	7.7%	7.4%
Student services	6,277,129	5,964,838	7.1%	7.1%
Institutional support	6,823,760	7,147,127	7.8%	8.5%
Operation and maintenance of plant	10,999,262	10,554,930	12.5%	12.5%
Scholarships and fellowships	2,728,754	2,571,620	3.1%	3.1%
Auxiliary enterprises	24,364,542	23,716,074	27.7%	28.1%
Depreciation	4,570,981	4,457,776	5.2%	5.3%
Interest	2,173,387	2,176,018	2.5%	2.6%
Total expenses	<u>\$ 87,935,319</u>	<u>\$ 84,292,992</u>	<u>100.0%</u>	<u>100.0%</u>

CITADEL FINANCIAL AID

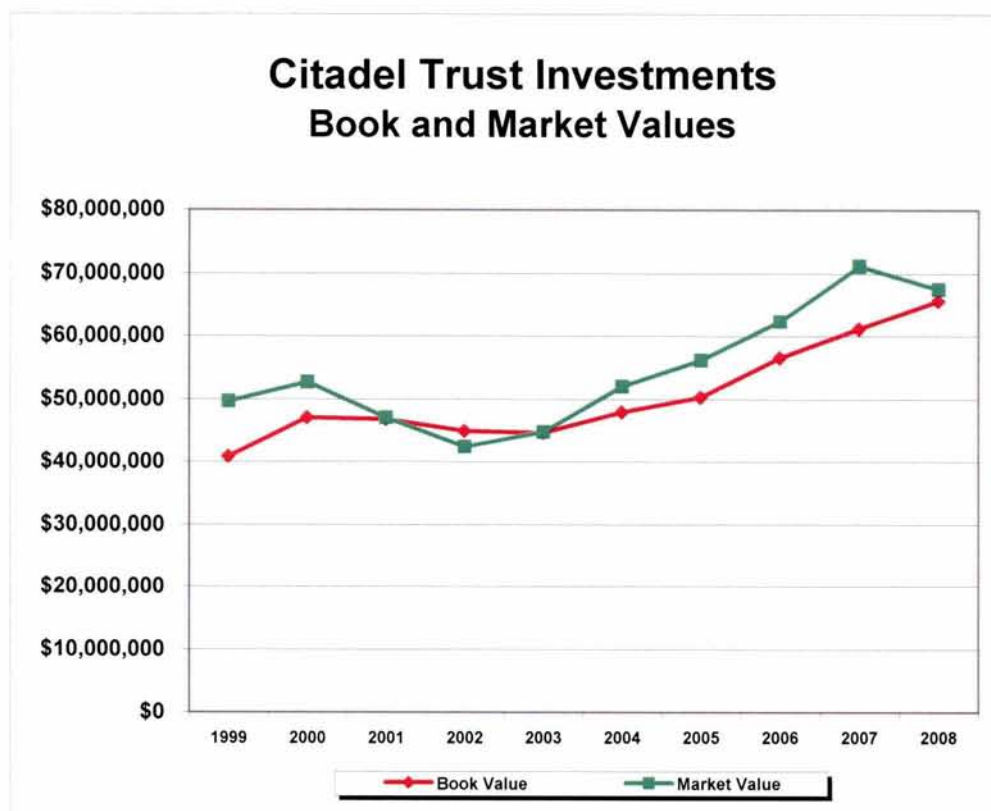
<u>FEDERAL PROGRAMS</u>	2005-2006		2006-2007		2007-2008	
	# Awards	Dollars	# Awards	Dollars	# Awards	Dollars
College Work Study	17	\$ 16,118	21	\$ 22,956	26	\$ 35,459
Federal Direct Parent Loans	568	8,416,718	639	8,703,189	518	7,256,317
Pell Grants	363	971,356	323	873,871	332	975,157
ACG Grants					72	51,835
SMART Grants					7	24,786
Perkins Loans	54	149,990	44	137,657	22	62,836
Federal Direct Student Loans	2,007	8,593,608	2,260	8,597,314	2,275	9,255,064
Supplemental Educational Opportunity Grants	118	87,386	121	95,415	132	94,111
Total - Federal Programs	3,127	\$ 18,235,176	3,408	\$ 18,430,402	3,384	\$ 17,755,565
<u>SOUTH CAROLINA PROGRAMS</u>						
Life, Palmetto and Need-Based Grants	358	\$ 1,864,694	446	\$ 1,908,807	398	\$ 1,844,423
<u>INSTITUTIONAL PROGRAMS</u>						
Scholarships	681	4,020,553	676	4,266,549	415	4,476,124
GRAND TOTAL - Federal, SC and Institutional Programs	4,166	24,120,423	4,530	24,605,758	4,197	24,076,112
<u>ATHLETIC GRANTS-IN-AID</u>						
Brigadier Foundation & others	275	\$ 2,467,971	238	\$ 2,344,354	223	\$ 2,613,699
Note: Athletic fee abatements are not included in the grant-in-aid dollars. The 2007-2008 amount of fee abatements is \$1,256,327.						
<u>ROTC SCHOLARSHIPS</u>						
Army	106	\$ 1,353,204	175	\$ 2,528,678	239	\$ 3,761,219
Navy/Marines	89	1,286,289	101	1,493,529	137	2,174,367
Air Force	53	616,416	45	513,414	55	537,180
Total	248	\$ 3,255,909	321	\$ 4,535,621	431	\$ 6,472,766
<u>INSTITUTIONAL SUPPORT FOR ROTC SCHOLARSHIPS</u>						
Institutional Grants	108	\$ 412,100	111	\$ 431,938	155	\$ 630,953

THE CITADEL TRUST, INCORPORATED

INVESTMENT SUMMARY

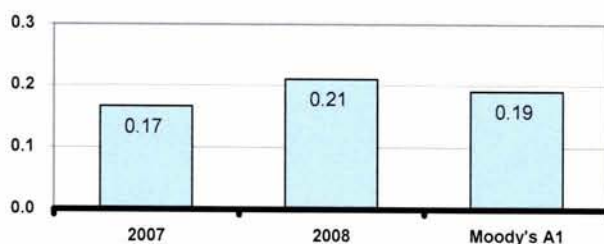
JUNE 30, 2008

<u>INVESTMENT MANAGER</u>	<u>BOOK VALUE</u>	<u>MARKET VALUE</u>
American Funds Capital World Growth & Income	4,735,869	4,687,996
American Funds EuroPacific Growth	4,121,786	5,724,357
Cambiar Large Cap Value	6,018,195	5,952,727
Sage	4,946,842	4,887,225
MDT All Cap Core Equity	2,537,055	2,333,930
Vanguard Emerging Markets ETF	1,324,688	1,122,484
Lord Abbett & Co. Large Cap	5,581,954	5,253,148
Martin Capital Advisors	9,746,582	9,651,531
Penn Capital	4,757,933	4,419,967
Renaissance Large Cap Growth	6,166,864	6,529,229
S&P 500 ETF	4,317,922	4,926,998
Sands Capital Management	3,038,207	3,602,684
Other	8,373,180	8,558,976
	<u>\$ 65,667,077</u>	<u>\$ 67,651,252</u>



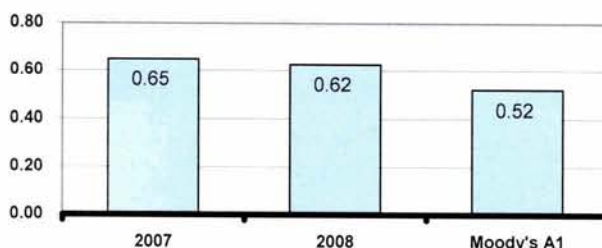
BALANCE SHEET RATIOS

Unrestricted Financial Resources to Operations



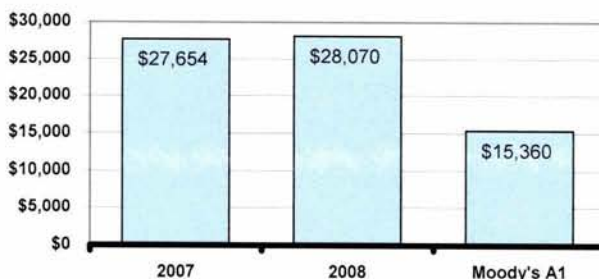
This ratio measures the financial strength of the college by comparing unrestricted financial resources to total operating expenses. The Citadel's ratio improved in 2008 and is slightly higher than other similarly rated colleges.

Expendable Resources to Operations



This ratio is a broader measure of financial strength as it compares total unrestricted and restricted expendable resources to total operating expenses. The Citadel's ratio fell somewhat in 2008 but remains higher than the Moody's "A1" median, indicating greater overall financial strength than similarly rated colleges.

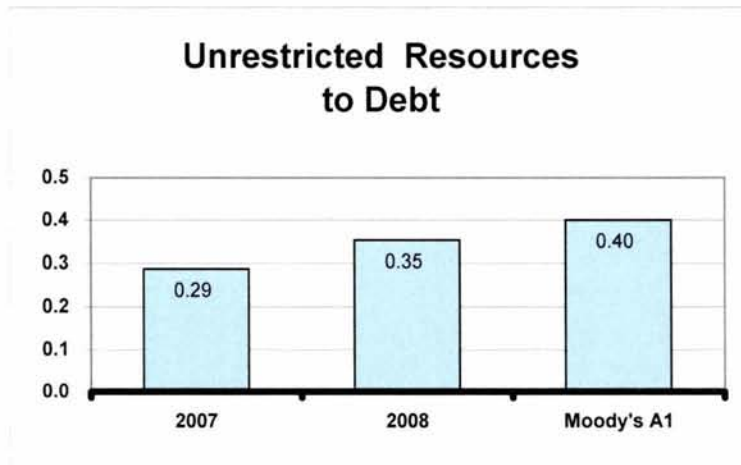
Total Resources per FTE Student



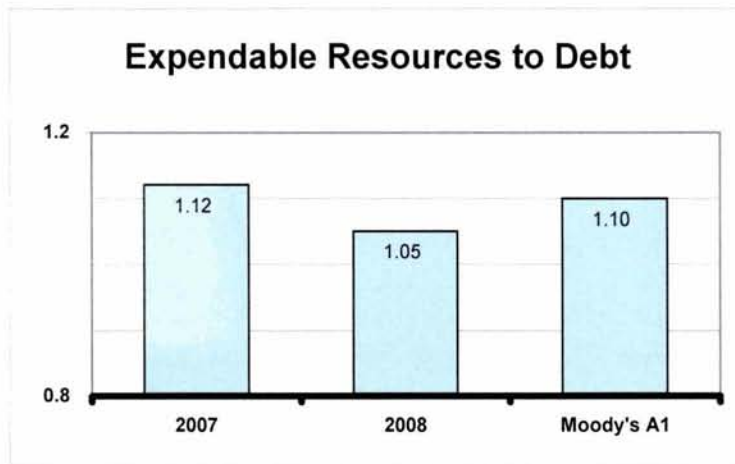
This ratio indicates that The Citadel has greater resources per FTE student than colleges in the same Moody's "A1" classification.

Note: Moody's "A1" refers to Moody's "A1" bond rating. Moody's rates approximately 200 public colleges based on their underlying credit quality. Moody's upgraded the long-term rating for The Citadel during FY 2004, and reaffirmed this rating in June 2007. The improved bond rating was based on The Citadel's market strength, healthy financial resource levels, successful fundraising efforts, healthy operating performance, and limited borrowing plans.

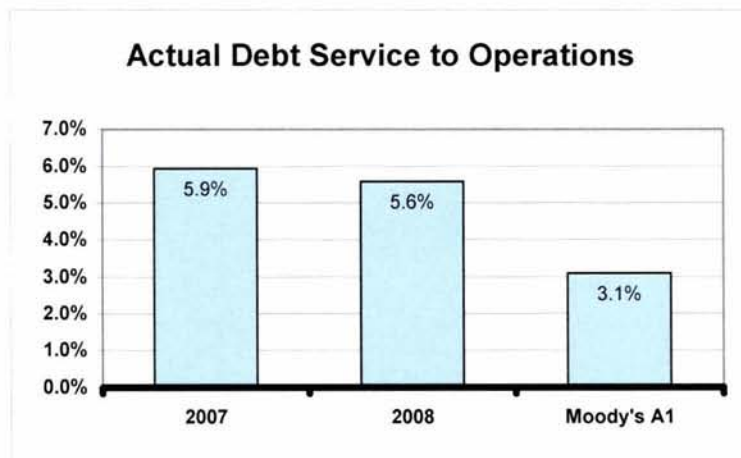
CAPITAL RATIOS



This ratio measures unrestricted resources divided by total debt. The Citadel's ratio improved in 2008 as a result of an operating surplus, but it is still lower than the Moody's "A1" median.

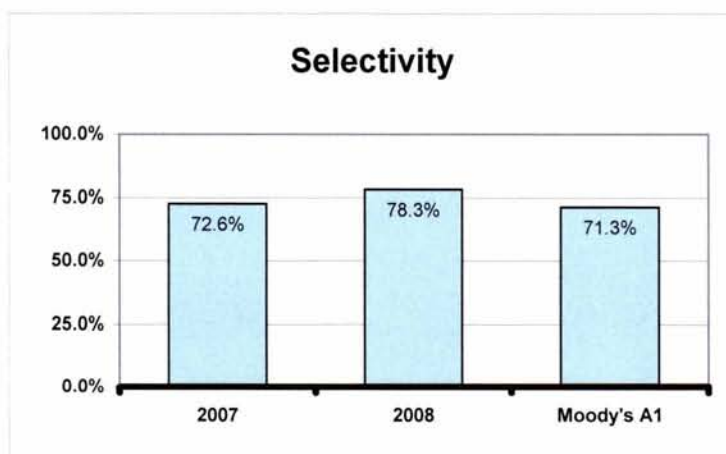


This ratio is a broader measure of debt coverage because it includes unrestricted and restricted expendable fund balances. This measure of debt coverage weakened in 2008 and is slightly lower than the Moody's "A1" median.

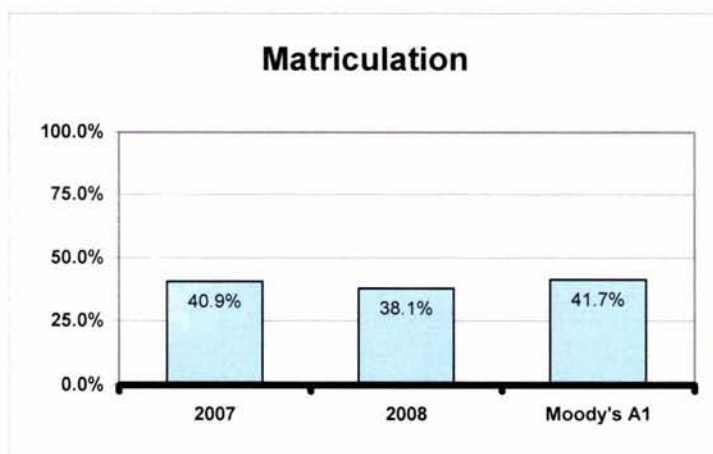


This percentage is calculated by dividing total annual debt service by total operating expenses. Debt service costs amount to a higher percentage of operating costs at The Citadel than at similarly rated colleges.

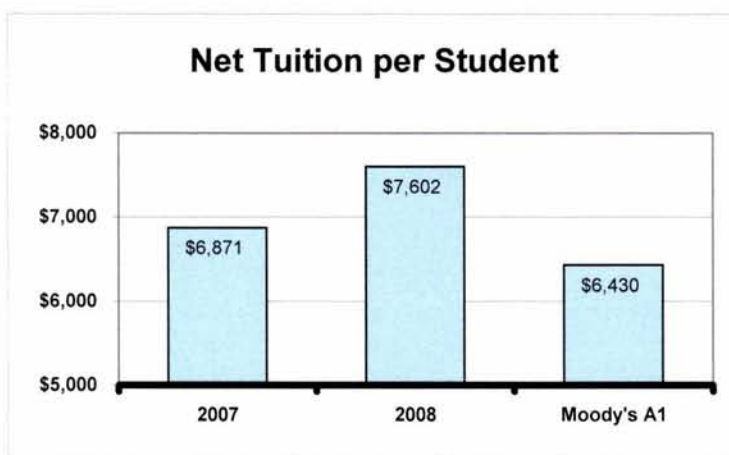
MARKET RATIOS



This ratio indicates the percentage of students who applied to The Citadel and were accepted. The Citadel is slightly less selective than other similarly rated colleges.

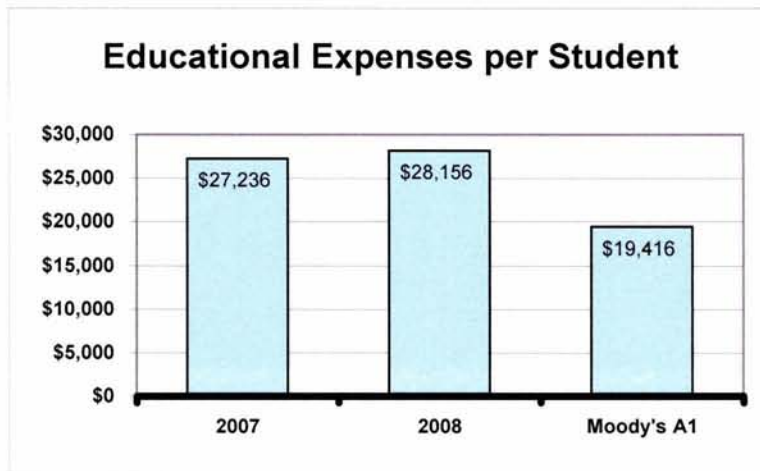


This ratio measures the percentage of accepted students who matriculate at The Citadel. The matriculation rate is lower than the Moody's A1 median.

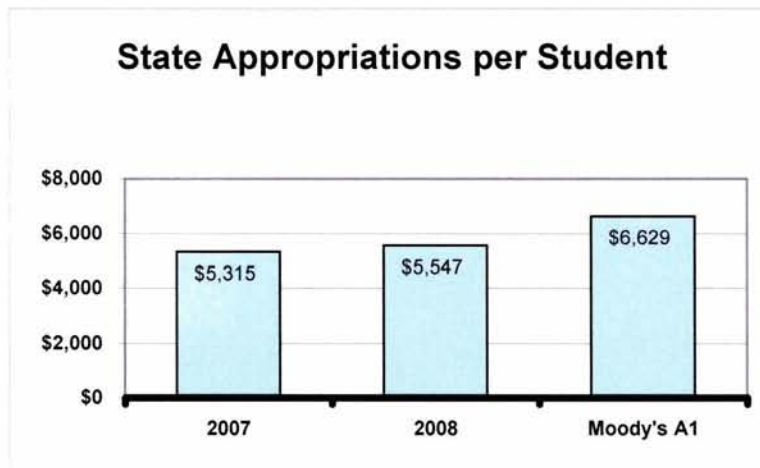


Net tuition per student is calculated by dividing total tuition, less scholarship aid, by total FTE students. Net tuition per student increased in 2008 and is higher than other similarly rated colleges.

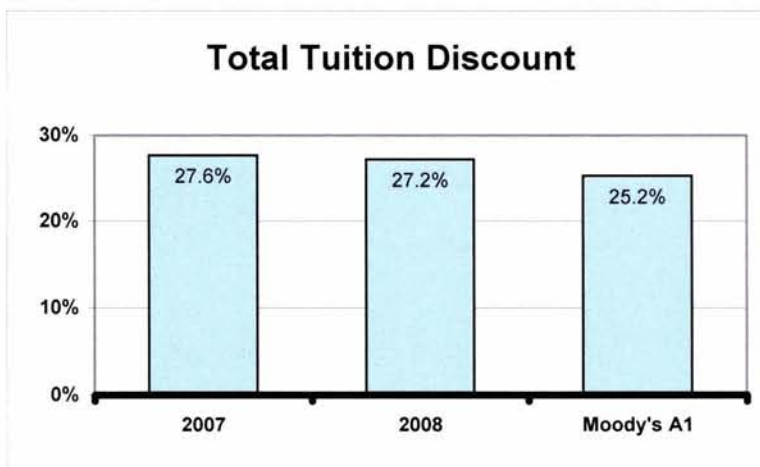
MARKET RATIOS



The Citadel's educational expenses per student are rising and are higher than the Moody's "A1" median.



State appropriations per student is less than similar rated colleges



This percentage is calculated by dividing total scholarship aid by total tuition and fees.

REPAYMENT SCHEDULE FOR BONDS OUTSTANDING

As of June 30, 2008

Year	Institution			Revenue Bonds		Athletic Facility Bonds		Total Rev & Athletic Fac. Bonds	All bonds
	Principal	Interest	Total	Principal	Interest	Principal	Interest	Total	Total
2009	\$ 170,000	\$ 81,775	\$ 251,775	\$ 1,750,000	\$ 1,129,956	\$ 1,254,600	\$ 1,308,193	\$ 5,442,749	\$ 5,694,524
2010	180,000	74,006	254,006	1,820,000	1,062,756	1,495,255	1,242,149	5,620,160	5,874,166
2011	185,000	65,678	250,678	1,885,000	992,656	1,575,245	1,159,905	5,612,806	5,863,484
2012	200,000	56,900	256,900	1,965,000	913,438	1,663,628	1,073,031	5,615,097	5,871,997
2013	205,000	47,788	252,788	2,045,000	834,931	1,756,464	980,974	5,617,369	5,870,157
2014	215,000	38,338	253,338	2,120,000	763,313	1,853,812	883,469	5,620,594	5,873,932
2015	230,000	28,210	258,210	2,185,000	689,112	1,955,738	780,246	5,610,096	5,868,306
2016	235,000	17,397	252,397	2,275,000	609,906	1,319,948	678,782	4,883,636	5,136,033
2017	250,000	5,938	255,938	2,355,000	524,594	1,399,588	594,592	4,873,774	5,129,712
2018	-	-	-	645,000	430,394	575,674	505,205	2,156,273	2,156,273
2019	-	-	-	670,000	404,594	325,000	472,144	1,871,738	1,871,738
2020	-	-	-	700,000	377,794	345,000	448,842	1,871,636	1,871,636
2021	-	-	-	725,000	348,919	370,000	424,106	1,868,025	1,868,025
2022	-	-	-	755,000	318,106	400,000	397,577	1,870,683	1,870,683
2023	-	-	-	790,000	285,075	425,000	368,896	1,868,971	1,868,971
2024	-	-	-	825,000	249,525	455,000	338,424	1,867,949	1,867,949
2025	-	-	-	865,000	212,400	490,000	305,801	1,873,201	1,873,201
2026	-	-	-	900,000	173,475	525,000	270,668	1,869,143	1,869,143
2027	-	-	-	-	132,975	565,000	233,025	931,000	931,000
2028	-	-	-	-	132,975	605,000	192,514	930,489	930,489
2029	-	-	-	2,955,000	132,975	645,000	149,136	3,882,111	3,882,111
2030	-	-	-	-	-	695,000	102,890	797,890	797,890
2031	-	-	-	-	-	740,000	53,058	793,058	793,058
<hr/>									
	\$ 1,870,000	\$ 416,030	\$ 2,286,030	\$ 28,230,000	\$ 10,719,869	\$ 21,434,952	\$ 12,963,627	\$ 73,348,448	\$ 75,634,478

BOND COVERAGE FISCAL YEAR 2008

State Institution Bonds 2001D		Revenue Bonds Series 1997 & 2005		Athletic Facility Bonds Series 2003, 2005, 2006		Athletic Facility Bonds Series 2007	
Pledged Fees		Pledged Net Revenues		Pledged Fees		Pledged Revenues	
Tuition	\$ 545,451	Barracks	\$ 3,668,224	Athletic Operating Fee	\$ 3,433,160	Skybox &	\$ 71,505
Registration	103,208	Cadet Store	965,869	Athletic Facility Fee	696,610	Club seats	
		Gift Shop	378,390				
		Dining Hall	86,660				
		ARMARK Investment	210,964				
		Faculty Quarters	145,841				
		Director - Auxiliary Services	(2,048)				
		Infirmary	137,834				
		Laundry/Dry Clean	64,519				
		Tailor Shop	76,857				
		Telephone	25,095				
		Parking	298,217				
<hr/>							
Total	<u>\$ 648,659</u>		<u>\$ 6,056,422</u>		<u>\$ 4,129,770</u>		<u>\$ 71,505</u>
<hr/>							
Debt Service							
<hr/>							
Series 2001D	\$ 254,041	Series 1997	\$ 1,365,513	Series 2003	\$ 287,225	Series 2007	\$ 71,505
		Series 2005	1,516,125	Series 2005	739,613		
				Series 2006	622,356		
<hr/>							
Total	<u>\$ 254,041</u>		<u>\$ 2,881,638</u>		<u>\$ 1,649,194</u>		<u>\$ 71,505</u>
<hr/>							
Coverage	<u>2.5534</u>		<u>2.1017</u>		<u>2.5041</u>		<u>1.0000</u>

CITADEL FUNDING SOURCES

Maintenance Reserve Funds	Balance 6/30/2007	Revenue	Expense	Transfers In (Out)	Balance 6/30/2008
Barracks	\$ 398,300	\$ 40,337	\$ -	\$ 80,668	\$ 519,305
Cadet Store	330,277	29,931	-	-	360,208
Dining Hall	565,715	39,592	-	(293,982)	311,325
Faculty Quarters	29,510	1,118	-	50,351	80,979
Gift Shop	1,139	1,226	-	-	2,365
Infirmary	437,940	26,438	-	(129,850)	334,528
Laundry	135,569	10,087	-	6,558	152,214
Tailor Shop	160,350	14,621	-	3,240	178,211
E & G Maintenance Reserve	194,012	13,695	-	(140,461)	67,246
Parking Maintenance Reserve	150,645	88,025	(743)	(5,000)	232,927
Total	\$ 2,403,457	\$ 265,070	\$ (743)	\$ (428,476)	\$ 2,239,308

Debt Related Funds	Balance 6/30/2007	Revenue	Expense	Transfers In (Out)	Balance 6/30/2008
Capital Projects Other (E&G & auxiliary projects)	\$ 139,268	7,755	-	-	\$ 147,023
Institutional Capital Projects (E&G projects)	\$ 849,256	35,942	-	(503,821)	\$ 381,377

Athletic Facility Funds	\$ 202,619	715,556	(2,577)	(686,371)	\$ 229,227
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Sinking Funds for Debt Service					
Barracks	\$ 1,195,726	3,411,259	-	(2,308,489)	\$ 2,298,496
Athletics Debt Reserve (\$8.7 M issue)	\$ 134,311	10,041	-	-	\$ 144,352
Athletics Sinking Fund (\$6 M issue)	\$ 50,000	-	-	224,333	\$ 274,333

Other					
ARAMARK investment (1)	\$ 72,132	24,717	(27,397)	-	\$ 69,452
ARAMARK investment (2)	\$ -	1,826,156	(7,350)	(300,000)	\$ 1,518,806
Unrestricted Gifts	\$ 472,995	1,667,056	(656,082)	(1,317,381)	\$ 166,588
Aiken Florence Fund	\$ 421,779	(30,082)	(2,206)	-	\$ 389,491
Turner Fund	\$ 1,506,052	92,418	(7,870)	-	\$ 1,590,600

THE CITADEL
STATEMENT OF REVENUES, EXPENDITURES, AND TRANSFERS
FOR AUXILIARY ACTIVITIES
For the Year Ended June 30, 2008

	Athletics	Barracks	Cadet Store	Gift Shop	Dining Hall
Auxiliary activity fees	\$ 3,493,400	\$ 5,424,483	\$ -	\$ -	\$ 5,427,989
Sales and services	2,308,879	42,018	4,975,202	2,571,252	22,457
Other sources	101,847	390,990	37,158	1,922	39,707
Total revenues	5,904,126	5,857,491	5,012,360	2,573,174	5,490,153
Expenditures	(6,705,640)	(2,189,267)	(4,046,491)	(2,194,784)	(5,403,494)
Excess revenues over (under) expenditures	(801,514)	3,668,224	965,869	378,390	86,659
Transfers in (out)	991,361	(2,439,994)	(941,891)	(333,880)	(387,916)
Net increase (decrease) for the year	189,847	1,228,230	23,978	44,510	(301,257)
Fund balance at beginning of year	(1,802,602)	1,624,523	1,712,548	272,073	617,200
Fund balance at end of year	<u>\$ (1,612,755)</u>	<u>\$ 2,852,753</u>	<u>\$ 1,736,526</u>	<u>\$ 316,583</u>	<u>\$ 315,943</u>

Note: Fund balances include inventories for activities such as the Cadet Store, Gift Shop, and Tailor Shop.

Faculty Quarters	Infirmary	Laundry/ Dry Clean	Tailor Shop	Telephone	Total
\$ -	\$ 1,023,093	\$ 1,000,658	\$ -	\$ -	\$ 16,369,623
621,740	140,095	68,306	1,335,119	25,466	12,110,534
1,789	28,684	11,432	17,592	136	631,257
623,529	1,191,872	1,080,396	1,352,711	25,602	29,111,414
(477,688)	(1,054,038)	(1,015,876)	(1,275,854)	(506)	(24,363,638)
145,841	137,834	64,520	76,857	25,096	4,747,776
(93,701)	(239,000)	(47,471)	(42,646)	(24,960)	(3,560,098)
52,140	(101,166)	17,049	34,211	136	1,187,678
30,196	441,772	138,066	275,663	165	3,309,604
\$ 82,336	\$ 340,606	\$ 155,115	\$ 309,874	\$ 301	\$ 4,497,282

SECTION II

Financial Statements And Accompanying Notes

INDEPENDENT AUDITOR'S REPORT

The Members of the Board of Visitors
The Citadel, The Military College of South Carolina
Charleston, South Carolina

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of The Citadel, The Military College of South Carolina (The Citadel), a department of the State of South Carolina, as of and for the year ended June 30, 2008, which collectively comprise The Citadel's basic financial statements as listed in the table of contents. These financial statements are the responsibility of The Citadel's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of The Citadel Trust (a blended component unit), or The Citadel Brigadier Foundation (a discretely presented component unit). The Citadel Trust's financial statements represent 29% of total assets, 40% of net assets, and 4% of total revenues of the business-type activities. The Citadel Brigadier Foundation's financial statements reflect 4% of total assets, 5% of net assets, and 7% of total revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for these blended and discretely presented components units, are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of The Citadel are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the business-type activities of the State of South Carolina that is attributable to the transactions of The Citadel. They do not purport to, and do not, present fairly the financial position of the State of South Carolina as of June 30, 2008, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component units of The Citadel as of June 30, 2008, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2008 on our consideration of The Citadel's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis on pages 3 - 11 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Citadel's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in blue ink that reads "Elliott Davis, LLC". The signature is written in a cursive, flowing style.

Greenwood, South Carolina
September 18, 2008

The Citadel
The Military College of South Carolina

Management's Discussion and Analysis
June 30, 2008

Overview of the Financial Statements and Financial Analysis

The Citadel is pleased to present its financial statements for fiscal year 2008. While audited financial statements for fiscal year 2007 are not presented with this report, condensed operations and financial position data will be presented in this section in order to illustrate certain increases and decreases. However, the emphasis of discussions about these statements will be on current year data. This discussion focuses on the combined operations and financial positions of the College, defined for purposes of this discussion as both the primary institution — The Citadel, and its blended component unit — The Citadel Trust. The discussion excludes the College's non-governmental component units — The Citadel Foundation and The Citadel Brigadier Foundation.

This report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis—for State and Local Governments*, and Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Colleges and Universities*. These financial statements focus on the financial condition of the College, the results of operations and cash flows of the College as a whole.

There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. These statements present financial information in a format similar to that used by private corporations. The College's net assets (the difference between assets and liabilities) are one indicator of the improvement or erosion of the College's financial health when considered with non-financial facts such as enrollment levels and the condition of the facilities.

This discussion and analysis of the College's financial statements provides an overview of its financial activities for the year. The renovation of Johnson Hagood Football Stadium, with additional funding provided by the current year \$6 million athletic facility bond issue, and the downturn in the financial markets that resulted in poor investment returns, stand out throughout the College's current year results.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the College as of the end of the fiscal year. The Statement of Net Assets is a point of time financial statement. The purpose of the Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of the College. The Statement of Net Assets presents end-of-year data concerning Assets (property that we own and what we are owed by others), Liabilities (what we owe to others and have collected from others before we have provided the service), and Net Assets (Assets minus Liabilities). It is prepared under the accrual basis of accounting, where revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service to us, regardless of when cash is exchanged.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the College. They are also able to determine how much the College owes vendors and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the institution.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the institution's equity in property, plant, and equipment owned by the institution. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and

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expendable. Restricted nonexpendable net assets consist solely of the College's permanent endowment funds that are only available for investment purposes. Expendable restricted net assets are available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted assets are available to the institution for any lawful purpose of the institution. Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the College's unrestricted net assets have been designated for various academic and research programs and initiatives.

Condensed Summary of Net Assets (thousands of dollars)				
Assets:	2008	2007	Increase/ (Decrease)	Percent Change
Current assets	\$ 44,582	\$ 41,389	\$ 3,193	7.71%
Capital assets, net	135,960	125,622	10,338	8.23%
Other assets	61,572	64,971	(3,399)	-5.23%
Total Assets	242,114	231,982	10,132	4.37%
Liabilities:				
Current Liabilities	16,300	12,669	3,631	28.66%
Noncurrent Liabilities	52,960	49,958	3,002	6.01%
Total Liabilities	69,260	62,627	6,633	10.59%
Net Assets:				
Invested in capital assets, net of related debt	87,354	85,977	1,377	1.60%
Restricted - nonexpendable	32,055	30,283	1,772	5.85%
Restricted - expendable	35,448	39,491	(4,043)	-10.24%
Unrestricted	17,997	13,604	4,393	32.29%
Total Net Assets	\$ 172,854	\$ 169,355	\$ 3,499	2.07%

Assets – increase of \$10.1 million

- The \$3.2 million increase in current assets is composed of a \$2.6 million decrease in The Citadel Trust and a \$5.8 million increase in Citadel current assets.
 - The Trust decrease in current assets was due to a \$2.7 million decrease in current cash and investments mainly attributable to a \$2.5 million decrease in investment income. Total investment return was -7.3% in fiscal year 2008 as compared to 16.5% in fiscal year 2007. In addition, current assets were used to pay the prior year \$1.8 million payable to The Citadel, to transfer \$600,000 to The Citadel, and to cover scholarship and other non-operating expenses. These decreases were partially offset by \$2.8 million of gift and grant revenue.
 - The \$5.8 million increase in Citadel current assets resulted from increases in cash and accounts receivable and decreases in prepaid expenses and amounts due from other funds. Current cash increased and the amount due from other funds decreased by \$800,000 as The Citadel Trust paid the prior year \$1.8 million due to The Citadel. At June 30, 2008 The Trust owed \$1 million to The Citadel to fund athletic grants in aid for fiscal year 2008. Current restricted cash increased by \$1.9 million primarily related to funds held for maintenance and repair construction projects, particularly \$1.5 million in grant funds received for modernization of Daniel Library. The \$4.3 million increase in accounts receivable was principally due to unpaid billings to the Navy and Army to cover ROTC scholarships. The \$600,000 decrease in prepaid expenses was attributable to a 2009 insurance payment that was made in July 2008 rather than June 2008.

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- Capital assets increased by approximately \$10.3 million, primarily due to increases in construction in progress. Additional construction costs totaling over \$12.8 million increased construction in progress for the National Guard Readiness Center/Sky Box facility at Johnson Hagood Stadium (Readiness Center) and Stevens Barracks Renovation. Building improvements of \$300,000 for the Carillon Niches and land improvement projects for Wilson Field and campus paving totaling \$600,000 were completed and capitalized in fiscal year 2008. Over \$350,000 of new equipment was purchased and the initial \$800,000 payment for the \$5.4 million administrative software system was made. These increases were offset by \$4.6 million of depreciation.
- The \$3.4 million decrease in other assets is composed of a \$1.1 million decrease in The Citadel Trust and a \$2.3 million decrease in Citadel other assets.
 - The \$2.3 million decrease in Trust noncurrent restricted cash and investments was primarily due to the \$4.7 million negative return on investments in noncurrent restricted (endowed) investments and a \$1 million transfer to The Citadel for Stadium debt service. This reduction in noncurrent assets was partially offset by \$5 million of additions to permanent endowments.
 - The \$1.1 million decrease in Citadel other assets was principally due to a \$2.2 million decrease in noncurrent restricted cash related to Readiness Center construction. The 2007 Athletic Facilities Revenue bond issued in November 2007 generated \$6 million in bond proceeds that, together with \$5.8 million in proceeds and interest remaining from the 2006 Athletic Facilities Revenue bond, funded \$11 million of construction costs incurred in fiscal year 2008. Bond proceeds and interest of \$3.2 million remain to fund the completion of the Readiness Center in fiscal year 2009.

Liabilities – increase of \$6.6 million

- The \$3.6 million increase in current liabilities is composed of a \$1 million decrease in Citadel Trust current liabilities and a \$4.6 million increase in Citadel current liabilities.
 - The Trust \$1 million reduction in current liabilities was primarily due to the reduction in the amount due to The Citadel. The Trust paid the \$1.8 million due to The Citadel at June 30 2007 while \$1 million was due to The Citadel at June 30 2008 to cover athletic scholarships.
 - The \$4.6 million increase in Citadel current liabilities was attributable to a \$3.6 million increase in accounts payable plus a \$750,000 increase in bonds and interest payable. \$2.6 million of the increase in accounts payable was related to ongoing construction projects, specifically the Readiness Center and Stevens Barracks Renovation. \$800,000 of the increase was related to the new administrative software system The Citadel purchased in June 2008 and \$400,000 was related to an increase in utility payables. The \$6 million 2007 Athletic Facilities Revenue bond issued in November 2007 was responsible for the increase in bonds and interest payable.
- Noncurrent liabilities increased by \$3 million. The noncurrent portion of bonds payable increased as a result of the Athletic Facilities Revenue Bond issued in November 2007.

Net Assets – increase of \$3.5 million

- Capital assets, net of related debt, increased \$1.4 million. This resulted from increases in net capital assets of \$10.3 million as noted above, along with an overall increase in capital debt of \$3.5 million. As 2006 and 2007 Athletic Facilities Bond proceeds have been spent in fiscal year 2008 for the Readiness Center an additional \$5.5 million bond liability has been moved to Net Investment in Plant.

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- Restricted – non expendable assets increased by \$1.8 million. This increase is solely related to Trust activity. Total additions to permanent endowments of \$5 million were partially reduced by negative investment returns on Trust endowed investments.
- Restricted – expendable assets decreased by \$4 million. This decrease is composed of a \$3.6 million decrease in Citadel Trust restricted expendable assets and a \$400,000 decrease in Citadel restricted expendable assets.
 - The \$3.6 million Trust decrease is attributable to negative investment returns on current restricted investments and \$2.8 million of transfers to The Citadel, partially offset by \$700,000 of restricted contributions.
 - The \$470,000 reduction in Citadel restricted expendable assets for scholarships, research, instruction and other purposes was the only significant change in restricted expendable assets. This decrease resulted from an increase in current liabilities of \$800,000 related to the purchase of a new administrative software system, somewhat offset by unspent restricted contributions.
- Unrestricted net assets increased by \$4.4 million. This increase is composed of a \$900,000 decrease in Citadel Trust unrestricted net assets and a \$5.3 million increase in Citadel unrestricted net assets.
 - The \$900,000 decrease in Citadel Trust unrestricted net assets resulted from a \$2.2 million transfer to The Citadel and negative investment returns on unrestricted investments. These reductions which were partially offset by \$1.9 million in unrestricted gifts and an \$800,000 reduction in current liabilities.
 - The \$5.3 million increase in Citadel unrestricted net assets is attributable to an operating fund surplus created by fee increases and tight control of expenditures. Student fees were increased by an average of 7.4% and departments were encouraged to reduce spending to 95% of original budget levels in order to provide funding for several strategic initiatives.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. A public College's dependency on state aid and gifts will result in operating deficits. The GASB requires state appropriations and gifts to be classified as nonoperating revenues. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by the College, both operating and nonoperating, and the expenses paid by the College, operating and nonoperating and any other revenues, expenses, gains and losses received or spent by the institution.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the College. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Nonoperating revenues are revenues received for which goods and services are not provided. State capital appropriations and capital grants and gifts are considered neither operating nor nonoperating revenues and are reported after "Income before other revenues expenses, gains or losses."

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Condensed Summary of Revenues, Expenses and Changes in Net Assets (thousands of dollars)

	<u>2008</u>	<u>2007</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
Revenues:				
Student tuition and fees	\$ 25,863	\$ 23,318	\$ 2,545	10.91%
Sales and services	27,079	26,274	805	3.06%
Grants and contracts	3,828	3,572	256	7.17%
Investment income (loss)	(4,413)	9,663	(14,076)	-145.67%
Other operating revenues	1,591	1,056	535	50.66%
Total Operating Revenues	<u>53,948</u>	<u>63,883</u>	<u>(9,935)</u>	<u>-15.55%</u>
State appropriations	16,895	16,025	870	5.43%
Grants	6,044	5,786	258	4.46%
Gifts	3,302	3,018	284	9.41%
Investment income	1,216	1,553	(337)	-21.70%
Other nonoperating revenues/expenses	225	173	52	30.06%
Total Nonoperating Revenues	<u>27,682</u>	<u>26,555</u>	<u>1,127</u>	<u>4.24%</u>
Total Revenues	<u>81,630</u>	<u>90,438</u>	<u>(8,808)</u>	<u>-9.74%</u>
Expenses:				
Compensation and employee benefits	46,396	43,495	2,901	6.67%
Services and supplies	28,810	28,530	280	.98%
Utilities	3,278	3,032	246	8.11%
Depreciation	4,571	4,458	113	2.53%
Scholarships and fellowships	2,707	2,602	105	4.04%
Total operating expenses	<u>85,762</u>	<u>82,117</u>	<u>3,645</u>	<u>4.44%</u>
Interest expense	2,173	2,176	(3)	-0.14%
Total Nonoperating Expenses	<u>2,173</u>	<u>2,176</u>	<u>(3)</u>	<u>-0.14%</u>
Total Expenses	<u>87,935</u>	<u>84,293</u>	<u>3,642</u>	<u>4.32%</u>
Income (loss) before capital contributions, additions to permanent endowments and transfers	<u>(6,305)</u>	<u>6,145</u>	<u>(12,450)</u>	<u>-202.60%</u>
Capital Contributions, Additions to Permanent Endowments, and Transfers:				
Capital grants and appropriations	4,765	4,510	255	5.65%
Permanent endowment additions	5,039	1,436	3,603	250.91%
Total capital contributions, additions to permanent endowments and transfers	<u>9,804</u>	<u>5,946</u>	<u>3,858</u>	<u>64.88%</u>
Change in Net Assets	<u>3,499</u>	<u>12,091</u>	<u>(8,592)</u>	<u>-71.06%</u>
Net Assets, Beginning	<u>169,355</u>	<u>157,264</u>	<u>12,091</u>	<u>7.69%</u>
Net Assets, Ending	<u>\$ 172,854</u>	<u>\$ 169,355</u>	<u>\$ 3,499</u>	<u>2.07%</u>

Total Revenues – decrease of \$8.8 million

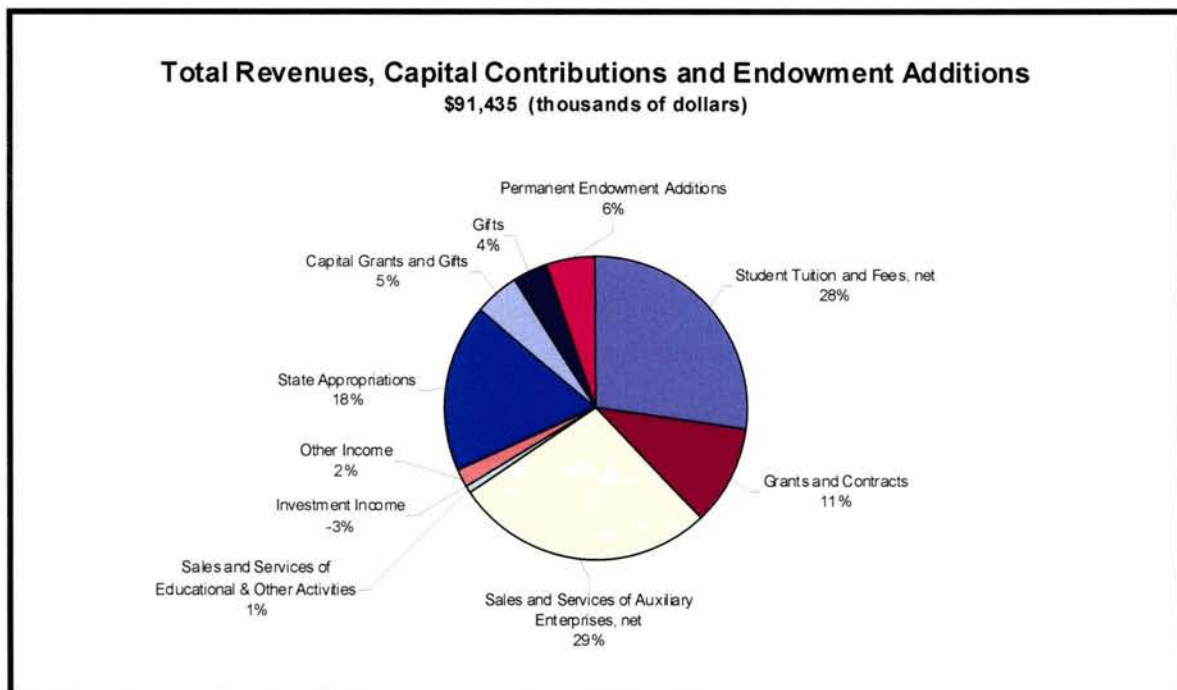
- Operating revenues decreased by \$10 million. This decrease is composed of a \$14 million decrease in Citadel Trust operating income and a \$4 million increase in Citadel operating income.
 - The decrease in Trust operating income is attributable to negative investment income in fiscal year 2008. Total investment return was -7.3% in fiscal year 2008 as compared to 16.5% in fiscal year 2007 and as a result investment income decreased by \$14 million.
 - Citadel operating revenues increased by \$4 million primarily because the College raised its overall cost of attendance by 7.4% generating increased revenues of \$3.6 million. The overall cost of attendance is defined as all tuition and fees plus deposits required for uniforms, books, and other cadet necessities. Grants and contracts increased by \$250,000. \$128,000 of this increase relates to increased federal grants and \$86,000 is attributable to increased State funding for state scholarship programs. Other operating revenue increased by \$260,000. \$160,000 of this increase was generated by the sale of niches in the Bell Tower.

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- Nonoperating revenues increased by \$1.1 million. This increase is composed of a \$300,000 increase in Citadel Trust nonoperating revenues and a \$800,000 increase in Citadel nonoperating revenues.
 - \$100,000 of the increase in Trust nonoperating revenues is attributable to increased grant funding from The Citadel Foundation and \$200,000 is attributable to an increase in contributions.
 - The \$800,000 increase in Citadel nonoperating revenues was based on the following:
 - State appropriations increased \$900,000, including a \$500,000 base appropriation increase and an additional \$400,000 through the Commission on Higher Education for parity funding.
 - Nongovernmental grants increased by \$100,000 due to increased grant funding from The Citadel Foundation.
 - Contributions increased by \$100,000.
 - Investment income decreased by \$300,000 related to the reduction in interest rates during this fiscal year.

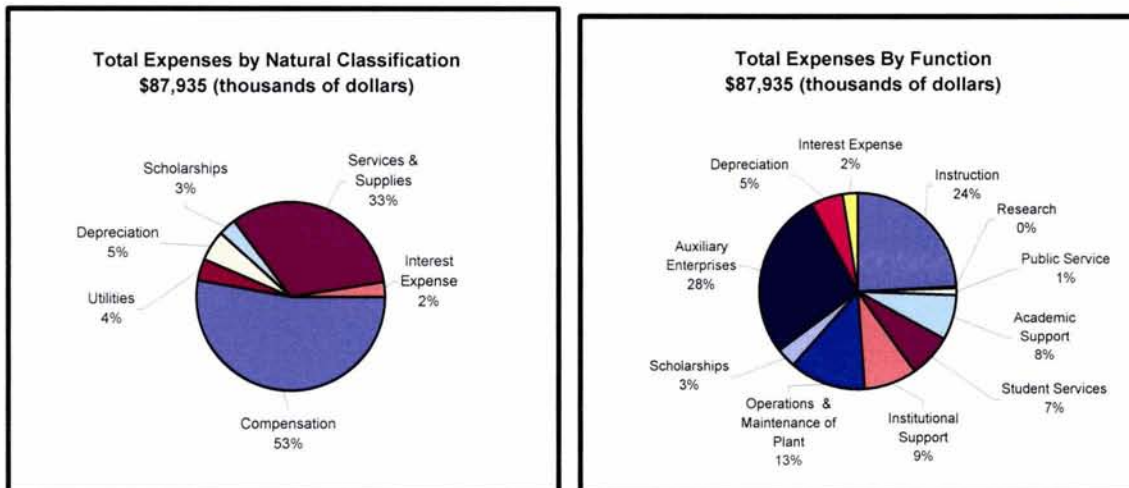


Total Expenses – increase of \$3.6 million

- Operating expenses increased by \$3.6 million. This increase is almost entirely due to the \$2.9 million increase in compensation and employee benefits. A State mandated 2% cost of living pay raise, plus rising benefits costs, are the primary reasons for this increase. Classified salaries increased \$1.1 million and unclassified salaries increased \$800,000. The cost of fringe benefits increased by \$1 million. Small increases in sales and services expenses (\$300,000) and utility expenses (\$200,000) related to rising inflation and energy costs added to the compensation and benefits increases.
- Interest expense remained relatively unchanged from the prior year.

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Capital Contributions and Additions to Permanent Endowments – increase of \$3.9 million

- Capital grants and appropriations increased by \$300,000 in the current fiscal year. During the current year the College was granted \$1.6 million of state capital reserve funds for the renovation of Stevens Barracks. \$600,000 related to this funding was spent and recorded as revenue in this fiscal year, along with \$800,000 of capital reserve funds awarded in fiscal year 2007 for deferred maintenance and renovations to the Infirmary. \$400,000 of Research Infrastructure Bond proceeds awarded in fiscal year 2006 was spent on various maintenance projects and recorded as revenue in the current year. The College also received a \$1.5 million capital grant from The Citadel Foundation to fund renovations to Daniel Library, in addition to continued grant funding from The Foundation for Stadium debt service. Permanent endowments increased by \$3.6 million as The Citadel Trust received a \$2.8 million bequest and other small additions related to The Citadel Foundation's on-going capital campaign.

Statement of Cash Flows

The final statement presented is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the College during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from non-capital financing activities. This section reflects the cash received and spent for nonoperating, non-investing, and non-capital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

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Capital Assets and Debt Administration

Capital assets, net of accumulated depreciation, at June 30, 2008 and June 30, 2007 were as follows:

Capital Assets (net of accumulated depreciation)				
	<u>2008</u>	<u>2007</u>	<u>Increase/ (decrease)</u>	<u>Percent Change</u>
Capital Assets:				
Land	\$ 4,800,669	\$ 4,800,669	\$ -	0.00%
Construction in Progress	15,390,376	2,547,567	12,842,809	504.12%
Fine Arts	350,720	350,720	-	0.00%
Land improvements	4,491,008	4,538,758	(47,750)	-1.05%
Buildings and improvements	108,474,610	111,651,631	(3,177,021)	-2.85%
Equipment	1,517,109	1,581,451	(64,342)	-4.07%
Vehicles	106,838	101,844	4,994	4.90%
Intangibles	829,381	49,560	779,821	1573.49%
Total	<u>\$ 135,960,711</u>	<u>\$ 125,622,200</u>	<u>\$ 10,338,511</u>	<u>8.23%</u>

Capital assets increased by approximately \$10.3 million, primarily due to increases in construction in progress. Additional construction costs totaling over \$12.8 million increased construction in progress for the National Guard Readiness Center/Sky Box facility at Johnson Hagood Stadium (Readiness Center) and Stevens Barracks Renovation. The sky box facility will be completed before the first football game in the fall of 2008 and the National Guard Readiness Center will be completed by December 2008. Stevens Barracks Renovations, funded with state capital reserve funds, will be completed by September 2008. Building improvements of \$300,000 for the Carillon Niches and land improvement projects for Wilson Field and Campus Paving totaling \$600,000 were completed and capitalized in fiscal year 2008. \$300,000 of new equipment was purchased and the initial \$800,000 payment for the \$5.4 million administrative software system was made. These increases were offset by \$4.6 million of depreciation.

The College issued \$6 million of taxable athletic facility revenue bonds in 2008 to fund the construction of the Sky Box facility at Johnson Hagood Stadium. Total stadium debt is \$19.7 million and total athletic bonded debt is \$21.4 million. The College has pledged student athletic fees and skybox, club seat and stadium rentals to fund the debt service for these bonds. The stadium renovation is part of the College's current capital campaign and management anticipates that most of the stadium debt service will be paid by gifts and rentals of skyboxes and club seats.

At its meeting in June 2008, the Board of Visitors authorized borrowing up to \$5,100,000 from the State Master Lease program to finance the College's Enterprise Resource Program (ERP) purchase and implementation. On July 25 2008 the College closed on a lease purchase agreement through the State Master Lease Program for a \$4,320,000, 7-year note, with an interest rate of 3.66% to fund the purchase and implementation of the ERP System.

The College anticipates borrowing up to \$4.75 from the State Master Lease program in fiscal year 2009 to fund the energy performance contract. The goal of the energy performance contract is to install energy upgrades to better manage energy use on campus.

Economic Outlook

The economic position of The Citadel is closely tied to that of the State of South Carolina. The State incurred an unaudited \$250 million deficit in fiscal year 2008. Budgeted revenue estimates for fiscal year 2009 have been reduced by over \$230 million. The State Budget and Control Board trimmed agency budgets by 3% at its August 12, 2008 meeting. The Citadel had anticipated the budget cut and was able to absorb it. Additional state cuts will impact College operations. The downturn of the stock market, after

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reaching record heights in October 2007, has negatively impacted endowed funds. The college averages the market value over the previous twelve quarters when calculating scholarship award recommendations, so the impact on scholarships will be felt, but the impact will be cushioned.

The College experienced robust enrollment during fiscal year 2008 and again as fiscal year 2009 begins. The largest freshmen class in 31 years matriculated in August 2009. Moody's Investors Service continued to rate The Citadel's long-term bond as "A1".

In August 2008, U.S. News & World Report ranked the College among the top 10 in the South, and specifically named The Citadel as No. 2 in best master's degree granting public college and universities in the South, No. 5 among all masters degree granting colleges and universities, both public and private, in the South, and No. 7 value among institutions in the South. The Citadel School of Engineering improved its ranking to No. 34 among the nation's best undergraduate engineering programs with Civil Engineering ranked No. 8. These rankings help create a healthy outlook for the College.

The College finished fiscal year 2008 with a \$4.4 million increase in unrestricted net assets. The Board of Visitors has determined that they need to increase fees in response to reduced state appropriations and the threat of appropriation cuts in order for the College to maintain and improve its quality. They increased fees for fiscal year 2009 with the same thought. Fiscal year 2009 begins with the excitement of the completion of the sky boxes and club area and the College being able to initiate a quality game day experience for donors and other supporters. Management anticipates that this will be part of the groundwork for successful fundraising as state funding becomes more precarious until the economy turns around.

More Information

This financial report is designed to provide a general overview of The Citadel's finances and demonstrate The Citadel's accountability for the money it receives. Any questions about this report or requests for information may be addressed to the Director of Financial Services, The Citadel, 171 Moultrie Street, Charleston, SC 29409.

THE CITADEL
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Statement of Net Assets
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	<u>The Citadel</u>	<u>The Citadel Trust</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 14,463,864	\$ 315,373	\$ 14,779,237
Investments	-	3,390,415	3,390,415
Restricted Assets - Current			
Cash and cash equivalents	4,447,074	1,448,390	5,895,464
Investments	-	8,440,423	8,440,423
Contributions receivable, net	150,880	148,104	298,984
Student loans receivable, net	-	84,153	84,153
Accounts receivable, net	8,046,174	283,204	8,329,378
Due from other funds	1,039,415	-	1,039,415
Due from component units	39,348	-	39,348
Contributions receivable, net	-	79,828	79,828
Inventories	1,714,490	-	1,714,490
Prepaid expenses	490,167	477	490,644
Total current assets	<u>30,391,412</u>	<u>14,190,367</u>	<u>44,581,779</u>
Noncurrent Assets			
Investments	-	3,010,486	3,010,486
Contributions receivable, net	-	7,882	7,882
Cash surrender value of life insurance	-	11,693	11,693
Restricted Assets - Noncurrent			
Cash and cash equivalents	5,989,076	5,660,055	11,649,131
Investments	-	45,386,110	45,386,110
Contributions receivable, net	285,851	173,996	459,847
Student loans receivable, net	605,849	55,091	660,940
Cash surrender value of life insurance	-	385,862	385,862
Capital assets not being depreciation	18,386,636	2,155,129	20,541,765
Capital assets, net of accumulated depreciation	<u>115,418,946</u>	<u>-</u>	<u>115,418,946</u>
Total noncurrent assets	<u>140,686,358</u>	<u>56,846,304</u>	<u>197,532,662</u>
Total assets	\$ <u>171,077,770</u>	\$ <u>71,036,671</u>	\$ <u>242,114,441</u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 5,064,256	\$ 3,384	\$ 5,067,640
Due to other funds	-	1,039,415	1,039,415
Retainages payable	81,177	-	81,177
Accrued payroll and related liabilities	1,720,726	6,901	1,727,627
Accrued compensated absences and related liabilities	1,268,288	-	1,268,288
Accrued interest payable	826,499	-	826,499
Deferred revenues	2,010,233	44,355	2,054,588
Bonds payable	3,048,130	-	3,048,130
Capital leases payable	25,382	-	25,382
Notes payable	34,806	-	34,806
Deposits	1,118,276	-	1,118,276
Annuities payable	-	8,190	8,190
Total current liabilities	<u>15,197,773</u>	<u>1,102,245</u>	<u>16,300,018</u>
Noncurrent Liabilities			
Federal loan funds	484,763	-	484,763
Accrued compensated absences and related liabilities	1,191,912	-	1,191,912
Deposits	769,585	-	769,585
Deferred revenues	2,590,000	-	2,590,000
Bonds payable	47,759,998	-	47,759,998
Capital leases payable	9,837	-	9,837
Annuities payable	-	17,406	17,406
Funds held for others	<u>136,416</u>	<u>-</u>	<u>136,416</u>
Total noncurrent liabilities	<u>52,942,511</u>	<u>17,406</u>	<u>52,959,917</u>
Total liabilities	\$ <u>68,140,284</u>	\$ <u>1,119,651</u>	\$ <u>69,259,935</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 85,198,618	\$ 2,155,129	\$ 87,353,747
Restricted for Nonexpendable:			
Scholarships	-	28,203,393	28,203,393
Other	-	3,776,719	3,776,719
Annuity	-	75,356	75,356
Restricted for Expendable:			
Scholarships, research, instruction and other	1,484,181	26,094,150	27,578,331
Loans	205,263	1,265,509	1,470,772
Capital projects	3,819,315	2,503,789	6,323,104
Debt service	75,942	-	75,942
Unrestricted	<u>12,154,167</u>	<u>5,842,975</u>	<u>17,997,142</u>
Total net assets	\$ <u>102,937,486</u>	\$ <u>69,917,020</u>	\$ <u>172,854,506</u>

See accompanying Notes to the Financial Statements

THE CITADEL

The Military College of South Carolina

Statement of Revenues, Expenses, and Changes in Net Assets

For the year ended June 30, 2008

	The <u>Citadel</u>	The <u>Citadel Trust</u>	<u>Total</u>
REVENUES			
Operating Revenues (Losses)			
Student tuition and fees (net of scholarship allowances of \$5,925,702)	\$ 25,862,630	\$ -	\$ 25,862,630
Federal grants and contracts	1,558,474	-	1,558,474
State grants and contracts	2,005,392	-	2,005,392
Nongovernmental grants and contracts	264,625	-	264,625
Sales and services of educational and other activities	883,381	-	883,381
Sales and services of auxiliary enterprises pledged for revenue bonds (net of scholarship allowances of \$3,181,337)	23,886,551	-	23,886,551
Sales and services of auxiliary enterprises - not pledged	2,308,879	-	2,308,879
Other fees	962,038	-	962,038
Investment loss (including investment expenses of \$231,334)	-	(5,729,558)	(5,729,558)
Endowment income	-	1,316,665	1,316,665
Other operating revenues	629,234	-	629,234
Total operating revenues	<u>58,361,204</u>	<u>(4,412,893)</u>	<u>53,948,311</u>
EXPENSES			
Operating Expenses			
Compensation and employee benefits	46,322,053	73,750	46,395,803
Services and supplies	28,758,250	52,094	28,810,344
Utilities	3,278,393	-	3,278,393
Depreciation expense	4,570,981	-	4,570,981
Scholarships and fellowships	2,706,411	-	2,706,411
Total operating expenses	<u>85,636,088</u>	<u>125,844</u>	<u>85,761,932</u>
Operating loss	<u>(27,274,884)</u>	<u>(4,538,737)</u>	<u>(31,813,621)</u>
NONOPERATING REVENUES (EXPENSES)			
State appropriations	16,895,424	-	16,895,424
State grants and contracts	46,884	-	46,884
Nongovernmental grants	5,794,114	203,242	5,997,356
Gifts	643,146	2,658,754	3,301,900
Investment income	1,216,475	-	1,216,475
Interest on capital asset-related debt	(2,173,387)	-	(2,173,387)
Gain on disposal of capital assets	14,053	-	14,053
Other nonoperating revenues	72,000	138,927	210,927
Net nonoperating revenues	<u>22,508,709</u>	<u>3,000,923</u>	<u>25,509,632</u>
Loss before other revenues, expenses, gains or losses	<u>(4,766,175)</u>	<u>(1,537,814)</u>	<u>(6,303,989)</u>
State capital appropriations	2,595,448	-	2,595,448
Capital grants and gifts	2,151,361	18,000	2,169,361
Additions to permanent endowments	-	5,038,903	5,038,903
Transfers to/from The Citadel Trust	6,254,206	(6,254,206)	-
Total other revenues, expenses, gains or losses	<u>11,001,015</u>	<u>(1,197,303)</u>	<u>9,803,712</u>
Increase (decrease) in net assets	<u>6,234,840</u>	<u>(2,735,117)</u>	<u>3,499,723</u>
NET ASSETS			
Net assets-beginning of year	96,702,646	72,652,137	169,354,783
Net assets-end of year	<u>\$ 102,937,486</u>	<u>\$ 69,917,020</u>	<u>\$ 172,854,506</u>

See accompanying Notes to the Financial Statements

THE CITADEL
The Military College of South Carolina
Statement of Cash Flows
For the year ended June 30, 2008

	<u>The Citadel</u>	<u>The Citadel Trust</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Student tuition and fees	\$ 23,240,603	\$ -	\$ 23,240,603
Grants and contracts	3,670,591	-	3,670,591
Sales and services of educational and other activities	881,570	-	881,570
Sales and services of auxiliary enterprises	25,936,479	-	25,936,479
Other operating receipts	636,894	-	636,894
Payments to employees for salaries and benefits	(46,097,573)	(52,094)	(46,149,667)
Payments to suppliers	(27,695,317)	(73,750)	(27,769,067)
Payments for utilities	(3,239,182)	-	(3,239,182)
Payments to students for scholarships and fellowships	(2,706,411)	-	(2,706,411)
Loans issued to students	(50,869)	-	(50,869)
Collection of loans to students	131,787	-	131,787
Funds held for others	50,016	-	50,016
Student direct lending receipts	16,655,012	-	16,655,012
Student direct lending disbursements	(16,568,612)	-	(16,568,612)
Net cash used by operating activities	<u>(25,155,012)</u>	<u>(125,844)</u>	<u>(25,280,856)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
State appropriations	16,872,595	-	16,872,595
Gifts and grants for other than capital purposes	6,609,242	7,992,278	14,601,520
Other non-operating revenues/expenses	72,000	(13,552)	58,448
Transfers from (to) component unit	7,040,946	(7,040,946)	-
Net cash provided by noncapital financing activities	<u>30,594,783</u>	<u>937,780</u>	<u>31,532,563</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from capital debt	5,988,500	-	5,988,500
State capital appropriations	2,136,058	-	2,136,058
Capital grants and gifts received	2,183,506	18,000	2,201,506
Proceeds from sale of capital assets	20,940	-	20,940
Purchases of capital assets	(11,765,483)	-	(11,765,483)
Principal paid on capital debt and leases	(2,487,686)	-	(2,487,686)
Interest paid on capital related debt	(2,034,058)	-	(2,034,058)
Net cash provided (used) by capital and related financing activities	<u>(5,958,223)</u>	<u>18,000</u>	<u>(5,940,223)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments	-	42,964,318	42,964,318
Interest and dividends on investments	1,203,613	1,477,356	2,680,969
Purchase of investments	-	(44,144,081)	(44,144,081)
Net cash provided by investing activities	<u>1,203,613</u>	<u>297,593</u>	<u>1,501,206</u>
Net change in cash	685,161	1,127,529	1,812,690
Cash and cash equivalents - beginning of year	24,214,853	6,296,289	30,511,142
Cash and cash equivalents - end of year	<u>\$ 24,900,014</u>	<u>\$ 7,423,818</u>	<u>\$ 32,323,832</u>
Reconciliation of net operating revenues (expense) to net cash used by operating activities:			
Operating loss	\$ (27,274,884)	\$ (4,538,737)	\$ (31,813,621)
Adjustments to reconcile operating loss to net cash used by operating activities			
Depreciation expense	4,570,981	-	4,570,981
Interest and dividends on investments	-	(1,538,734)	(1,538,734)
Realized and unrealized gains and losses on investments	-	5,951,627	5,951,627
Funds held for others	136,416	-	136,416
Changes in assets and liabilities			
Accounts receivable, net	(3,853,049)	-	(3,853,049)
Inventories	(68,123)	-	(68,123)
Student loans receivable	74,935	-	74,935
Prepaid expenses	590,681	-	590,681
Accounts payable and accrued expenses	546,180	-	546,180
Accrued salaries and related expenses	70,373	-	70,373
Accrued compensated absences and related liabilities	151,493	-	151,493
Deferred revenue	(315,928)	-	(315,928)
Student and other deposits	215,913	-	215,913
Net cash used by operating activities	<u>\$ (25,155,012)</u>	<u>\$ (125,844)</u>	<u>\$ (25,280,856)</u>

(continued)

THE CITADEL**The Military College of South Carolina****Statement of Cash Flows (continued)****For the year ended June 30, 2008**

	<u>The</u> <u>Citadel</u>	<u>The</u> <u>Citadel Trust</u>	<u>Total</u>
Non-cash transactions			
Increase (decrease) in fair value of investments	\$ 16,888	\$ (8,054,077)	\$ (8,037,189)
Capital assets acquired through gifts	\$ 9,970	-	\$ 9,190
Disposal of capital assets	\$ 8,100	-	\$ 8,100
Reconciliation of Cash and Cash Equivalent Balances:			
Current assets			
Cash and cash equivalents	\$ 14,463,864	\$ 315,373	\$ 14,779,237
Restricted cash and cash equivalents	4,447,074	1,448,390	5,895,464
Noncurrent assets			
Restricted cash and cash equivalents	<u>5,989,076</u>	<u>5,660,055</u>	<u>11,649,131</u>
Total cash and cash equivalents	<u>\$ 24,900,014</u>	<u>\$ 7,423,818</u>	<u>\$ 32,323,832</u>

See accompanying Notes to the Financial Statements

THE CITADEL

The Military College of South Carolina

Non-Governmental Discretely Presented Component Units

Statements of Financial Position

	The Citadel Foundation <u>December 31, 2007</u>	The Citadel Brigadier Foundation <u>June 30, 2008</u>
ASSETS		
Cash and cash equivalents	\$ 4,216,493	\$ 455,652
Unconditional promises to give/receivable, net	8,058,147	486,447
Interest receivable	869,152	-
Prepaid expenses	77,707	-
Long-term investments (at fair value)	160,279,039	7,192,335
Investments related to split-interest agreements	3,641,614	-
Notes receivable	-	20,000
Investment note receivable - Citadel Alumni Association	945,388	-
Other investments	5,933	-
Other receivables	29,123	-
Cash value of life insurance	527,732	227,687
Office equipment and improvements (net of accumulated depreciation)	113,737	38,574
Land and improvements held for investment	1,430,476	-
Other assets	90,925	-
Total assets	<u>\$ 180,285,466</u>	<u>\$ 8,420,695</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 277,362	\$ 35,565
Compensated absences payable	-	29,469
Grants payable - The Citadel	2,696,673	-
Notes payable	79,684	-
Annuities and life income funds payable	1,856,138	-
Charitable gift annuities	1,484,128	-
Total liabilities	<u>6,393,985</u>	<u>65,034</u>
Net Assets		
Unrestricted	126,691,410	182,050
Temporarily restricted	20,543,773	4,506,821
Permanently restricted	26,656,298	3,666,790
Total net assets	<u>173,891,481</u>	<u>8,355,661</u>
Total Liabilities and Net Assets	<u>\$ 180,285,466</u>	<u>\$ 8,420,695</u>

See accompanying Notes to the Financial Statements

THE CITADEL

The Military College of South Carolina

Non-Governmental Discretely Presented Component Units

Statements of Activities

	The Citadel Foundation Year Ended December 31, 2007	The Citadel Brigadier Foundation Year Ended June 30, 2008
REVENUES, GAINS AND OTHER SUPPORT		
Unrestricted		
Contributions	\$ 313,124	\$ -
Investment income	3,112,551	-
Net unrealized and realized gain on investments	8,615,519	-
Membership revenue	-	1,130,911
Fundraising activities	-	186,868
Miscellaneous	13,025	8,730
Other investment income	43,657	-
Loss on disposal of assets	-	-
Changes in value of split interest agreements	154,021	-
Net assets released from program restrictions	3,900,688	412,881
Transfers of net assets	(191,304)	-
Total unrestricted	15,961,281	1,739,390
Temporarily Restricted		
Contributions	8,927,769	412,881
Investment income	-	259,242
Net unrealized and realized gain on investments	5,113	(1,209,225)
Gain on disposal of assets	-	162,715
Changes in value of split interest agreements	(271,410)	-
Net assets released from program restrictions	(3,900,688)	(412,881)
Transfers of net assets	(150,679)	-
Total temporarily restricted	4,610,105	(787,268)
Permanently Restricted		
Contributions	1,815,376	679,837
Investment income	2,854	-
Net unrealized and realized gain on investments	76	-
Transfers of net assets	341,983	-
Total permanently restricted	2,160,289	679,837
Total revenue, gains and other support	22,731,675	1,631,959
EXPENSES AND LOSSES		
Unrestricted		
Grants to The Citadel	5,511,327	1,123,101
Other gift grants to The Citadel	4,655,470	-
Contributions	-	225
General and administrative	910,581	439,683
Fund-raising	2,195,498	405,270
Total unrestricted	13,272,876	1,968,279
Total expenses and losses	13,272,876	1,968,279
CHANGE IN NET ASSETS		
Unrestricted	2,688,405	(228,889)
Temporarily restricted	4,610,105	(787,268)
Permanently restricted	2,160,289	679,837
Total change in net assets	9,458,799	(336,320)
Net assets at beginning of period		
Unrestricted	124,003,005	410,939
Temporarily restricted	15,933,668	5,294,089
Permanently restricted	24,496,009	2,986,953
Total net assets at beginning of period	164,432,682	8,691,981
Net assets at end of period		
Unrestricted	126,691,410	182,050
Temporarily restricted	20,543,773	4,506,821
Permanently restricted	26,656,298	3,666,790
Total net assets at end of period	\$ 173,891,481	\$ 8,355,661

See accompanying Notes to the Financial Statements

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2008

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization: The Citadel is a State-assisted, coeducational institution of higher education. The College is granted an annual appropriation for operating purposes as authorized by the South Carolina General Assembly. The appropriation as enacted becomes the legal operating budget for the institution. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total operating funds. The laws of the State and the policies and procedures specified by the State for State agencies and institutions are applicable to the activities of The Citadel. The Citadel was established as an institution of higher education by Section 59-101-10 of the Code of Laws of South Carolina. The College is part of the primary government of the State of South Carolina and its funds are reported in the State's higher education funds in the Comprehensive Annual Financial Report of the State of South Carolina. Generally all State departments, agencies, and colleges are included in the State's reporting entity. These entities are financially accountable to and fiscally dependent on the State. Although the State-assisted universities operate somewhat autonomously, they lack full corporate powers. In addition, the Governor and/or the General Assembly appoint most of their board members and budgets a significant portion of their funds.

The Citadel is governed by the Board of Visitors, which has seven members appointed by the General Assembly, three by The Citadel Alumni Association, and one by the Governor. The Board administers, has jurisdiction over, and is responsible for the management of The Citadel.

Reporting Entity: The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and amended by GASB Statement Number 39, *Determining Whether Certain Organizations are Component Units*, consists of the primary government and its component units. Component units are legally separate organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationships with the primary government are such that exclusion would cause the financial statements to be misleading or incomplete. Accordingly, the financial statements include the accounts of the College, as the primary government, and the accounts of the following entities as component units:

The Citadel Trust (the Trust) was formed in 1991 as a non-profit eleemosynary corporation for the purpose of investing funds in order to provide scholarship and other financial assistance or support to The Citadel. The Trust is governed by a board of trustees appointed by The Citadel Board of Visitors. In addition, Citadel employees and facilities are used for virtually all activities of the Trust. The Trust has been reported as a blended component unit in the financial statements. The Trust is considered governmental in nature and, therefore, is subject to the governmental accounting model. Separate financial statements of the Trust can be requested from the College's controller at the following address: The Citadel, 171 Moultrie St., Charleston, SC 29409.

The Citadel Foundation (TCF) was established in 1961 as The Citadel Development Foundation, a separately chartered corporation. The Foundation's original goal was to support academic programs at The Citadel. In August 2000, The Citadel Development Foundation amended its charter to establish The Citadel Foundation as the College's official fundraising entity. TCF handles all gifts to the Foundation; gifts to restricted accounts, programs, and activities at the College; and gifts to The Citadel Brigadier Foundation and The Citadel Alumni Association for their specific activities and programs. TCF is governed by a board comprised of directors of the former Citadel Development Foundation, plus three other ex-officio members: the chairman of The Citadel Board of Visitors, the president of The Citadel, and a representative from The Citadel Brigadier Foundation. Although the College does not control the timing or amount of receipts from TCF, the majority of resources, or income thereon, that TCF holds and invests, is restricted to the activities of The Citadel by the donors. Because these restricted resources held by TCF can only be used by, or for the benefit of, the College, TCF is considered a component unit of the College. TCF reports its financial results on a calendar-year basis. Copies of TCF's separately issued

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2008

financial statements can be obtained by sending a request to the following address: The Citadel Foundation, 171 Moultrie St., Charleston, SC 29409.

The Citadel Brigadier Foundation (TCBF) is a separately chartered corporation organized exclusively to receive and manage private funds for support of athletic programs at The Citadel. A board elected by members of TCBF governs the organization. The Citadel Athletic Director is an ex-officio member of the TCBF Board of Directors. Funds raised by TCBF are used to provide scholarships for varsity athletes at The Citadel. Although the College does not control the timing or amount of receipts from TCBF, the majority of resources, or income thereon, that TCBF holds and invests, is restricted to the activities of The Citadel by the donors. Because these restricted resources held by TCBF can only be used by, or for the benefit of, the College, TCBF is considered a component unit of the College. TCBF's fiscal year ends on June 30. Copies of TCBF's separately issued financial statements can be obtained by sending a request to the following address: The Citadel Brigadier Foundation, 171 Moultrie St., Charleston, SC 29409.

TCF and TCBF are private not-for-profit organizations that report under Financial Accounting Standard Board (FASB) standards. Because these organizations are deemed not to be governmental entities and use a different reporting model, their balances and transactions are reported on separate financial statements. Most significant to TCF's and TCBF's operations and reporting model are Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*, SFAS No. 117, *Financial Reporting for Not-for-Profit Organizations*, and SFAS No. 136, *Transfers of Assets to a Not-For-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to TCF's and TCBF's financial information in the College's financial reporting entity for these differences.

The Citadel is part of the primary government of the State of South Carolina because it is financially accountable to and fiscally dependent on the State.

Financial Statements: The financial statements of The Citadel have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed in Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, and Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*. The financial statement presentation provides a comprehensive, entity-wide perspective of the College's net assets, revenues, expenses and changes in net assets and cash flows that replaces the fund-group perspective previously required.

Basis of Accounting: For financial reporting purposes, The Citadel, along with its governmental component unit, is considered a special-purpose government engaged only in business-type activities. Accordingly, the College's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Student tuition and auxiliary enterprise fees are presented net of scholarships and fellowships applied to student accounts, while stipends and other payments made directly are presented as scholarship and fellowship expenses. All significant intrafund transactions and balances have been eliminated.

The Citadel and its governmental component unit apply all applicable GASB pronouncements and, in accordance with GASB Statement No. 20, the State of South Carolina has elected to apply only those Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, not in conflict with GASB standards.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2008

Cash and Cash Equivalents: For purposes of the statement of cash flows, The Citadel considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the State of South Carolina State Treasurer's Office are considered cash equivalents. Restricted cash and cash equivalents are comprised of bond proceeds, debt service funds and externally restricted funds.

Investments: The Citadel accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses and changes in net assets.

The Citadel Foundation carries its investments in marketable equity investments with readily determinable fair values and all investments in debt securities at fair value. Unrealized gains and losses are included in the change in net assets in the statements of activities.

The Citadel Brigadier Foundation accounts for its investments at fair value based on quoted market prices. The increase or decrease in the fair value of investments is recorded on a quarterly basis and are included in the change in net assets in the statements of activities. TCBF carries its investments in real estate at fair market value as of the date the real estate was donated to TCBF.

Accounts Receivable: Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from the Federal government, State and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to The Citadel's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories: Inventories, which consist of bookstore and gift shop inventories for resale, are carried at the lower of cost or market. The cost of inventory items is reported on a weighted average basis.

Noncurrent Cash and Investments. Noncurrent cash and investments primarily consist of permanently endowed funds and federal student loan funds. These funds are externally restricted and are classified as noncurrent assets in the statement of net assets.

Prepaid Expenses: Expenditures for services paid in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods. Amounts reported in this asset account consist primarily of insurance, subscriptions, library periodicals, maintenance and service agreements, and travel reservations and deposits.

Capital Assets: Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The Citadel follows capitalization guidelines established by the State of South Carolina. All land is capitalized, regardless of cost. Qualifying improvements that rest in or on the land itself are recorded as depreciable land improvements. Major additions and renovations and other improvements that add to the usable space, prepare existing buildings for new uses, or extend the useful life of an existing building are capitalized. The College capitalizes movable personal property with a unit value in excess of \$5,000 and a useful life in excess of two years and depreciable land improvements, buildings and improvements, and intangible assets costing in excess of \$100,000. Routine repairs and maintenance and library materials, except individual items costing in excess of \$5,000, are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and improvements and land improvements and 2 to 25 years for machinery, equipment, and vehicles. A full year of depreciation is taken the year the asset is placed in

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2008

service and no depreciation is taken in the year of disposition.

The Citadel capitalizes as a component of construction in progress interest cost in excess of earnings on debt proceeds associated with the capital projects; therefore, asset values in capital assets include such interest costs. Capitalized interest for fiscal year 2008 was \$411,957.

Deferred Revenues and Deposits: Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Deposits represent dormitory room deposits, security deposits for possible room damage and key loss, student fee refunds, and other miscellaneous deposits. Student deposits are recognized as revenue during the semester for which the fee is applicable and earned when the deposit is nonrefundable to the student under the forfeit terms of the agreement.

Compensated Absences: Employee vacation pay expense is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the statement of net assets, and as a component of compensation and benefit expense in the statement of revenues, expenses, and changes in net assets.

Noncurrent Liabilities: Noncurrent liabilities include (1) principal amounts of bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year, and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

Net Assets: The Citadel's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets - expendable: Restricted expendable net assets include resources in which The Citadel is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted net assets - nonexpendable: Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the College, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2008

The Citadel's policy for applying expenses that can use both restricted and unrestricted resources is delegated to the departmental administrative level. General practice is to first apply the expense to restricted resources then to unrestricted resources.

Income Taxes: The Citadel is a political subdivision of the State of South Carolina and is, therefore, generally exempt from federal and state income taxes under applicable federal and state statutes and regulations on related income. Certain activities of The Citadel may be subject to taxation as unrelated business income.

The Citadel Trust is a not-for-profit organization as described in Internal Revenue Code Section 501(c) (3) and related income is exempt from federal income tax under Code Section 501(a).

The Citadel Foundation (TCF) and The Citadel Brigadier Foundation (TCBF) are not-for-profit organizations described in Internal Revenue Code Section 501(c) (3) and are exempt from federal income tax under Code Section 501(a). TCF and TCBF are classified by the Internal Revenue Service as other than private foundations and base their tax-exempt status on their support of the College.

Classification of Revenues and Expenses: The Citadel has classified its revenues and expenses as either operating or nonoperating revenues according to the following criteria:

Operating revenues and expenses: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarships discounts and allowances; (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances; (3) grants and contracts that are essentially the same as contracts for services that finance programs The Citadel would not otherwise undertake. For The Citadel Trust, operating revenues consist of investment income and net increases or decreases in fair value of investments. Operating expenses include all expense transactions incurred other than those related to investing, capital, or noncapital financing activities.

Nonoperating revenues and expenses: Nonoperating revenues include activities that have the characteristics of nonexchange transactions. These revenues include gifts and contributions, appropriations, investment income (except investment income for The Citadel Trust as mentioned above), and any grants and contracts that are not classified as operating revenue or are not restricted by the grantor to be used exclusively for capital purposes. Nonoperating expenses include interest paid on capital asset related debt, losses on disposal of assets, and refunds to grantors.

Sales and Services of Educational and Other Activities: Revenues from sales and services of educational and other activities generally consist of amounts received from instructional, laboratory, research, and public service activities that incidentally create goods and services which may be sold to students, faculty, staff, and the general public.

Auxiliary Enterprises and Internal Service Activities: Auxiliary enterprise revenues primarily represent revenues generated by intercollegiate athletics, cadet store, gift shop, barracks, dining hall, and infirmary and printing services. Revenues of internal service and auxiliary enterprise activities and the related expenditures of College departments have been eliminated.

Scholarship Discounts and Allowances: Student tuition and fee revenues and certain other revenues from students are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants and other Federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in The Citadel's financial statements. To the extent that revenues

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from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance.

Rebatable Arbitrage: Arbitrage involves the investment of proceeds from the sale of tax-exempt securities in a taxable investment that yields a higher rate of return, resulting in income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from these earnings exceeds the effective yield on the related tax-exempt debt issued.

Governmental units that issue no more than \$5 million in total of all such debt in a calendar year are exempt from the rebate requirements. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. Rebates are payable every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes. The Citadel has no rebatable arbitrage liability at June 30, 2008.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenditures/expenses, and affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements: The Citadel has not completed the process of evaluating the impact that will result from adopting Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, or Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Statements 51 and 53 are effective for The Citadel's year ending June 30, 2010, and Statement 52 will be effective for The Citadel's year ending June 30, 2009. The Citadel is therefore unable to disclose the impact, if any, that adopting these GASB statements will have on its financial position and the results of its operations when the Statements are adopted.

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NOTE 2 – CASH AND CASH EQUIVALENTS, OTHER DEPOSITS, AND INVESTMENTS

Most deposits and investments of The Citadel are under the control of the State Treasurer who, by law, has sole authority for investing State funds. Deposits and investments of The Citadel Trust, the College's blended component unit, are not under the State Treasurer's control and are deposited or invested by financial institutions and brokers.

The following schedule reconciles deposits and investments within the footnotes to the statement of net assets amounts:

Statement of Net Assets:	Citadel	Citadel Trust	Total
Current assets			
Cash and cash equivalents	\$ 14,463,864	\$ 315,373	\$ 14,779,237
Investments	-	3,390,415	3,390,415
Restricted assets			
Cash and cash equivalents	4,447,074	1,448,390	5,895,464
Investments	-	8,440,423	8,440,423
Noncurrent assets			
Investments	-	3,010,486	3,010,486
Restricted assets			
Cash and cash equivalents	5,989,076	5,660,055	11,649,131
Investments	-	45,386,110	45,386,110
Total Statement of Net Assets	<u>\$ 24,900,014</u>	<u>\$ 67,651,252</u>	<u>\$ 92,551,266</u>
Notes: Deposits and Investments			
Cash on hand	\$ 27,800	\$ -	\$ 27,800
Deposits held by State Treasurer	24,792,927	11,817	24,804,744
Other deposits	79,287	348,016	427,303
Investments	-	67,291,419	67,291,419
Total Notes	<u>\$ 24,900,014</u>	<u>\$ 67,651,252</u>	<u>\$ 92,551,266</u>

Deposits

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, The Citadel's deposits may not be returned to the College. For deposits held by the State Treasurer, State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's deposits and investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

With respect to The Citadel's and The Trust's other deposits at year-end, all of these deposits are either insured or collateralized with securities held by the entity or by its agent in the entity's name, or collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name, except for \$33,731 of Trust deposits that are not insured or collateralized. The Trust has a formal investment policy that requires all cash deposits held at banks to be held in a bank trust department in a collateralized form.

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Investments

All investments are owned by The Citadel Trust, a component unit of The Citadel. Investments are stated at fair value based on quoted market prices. Investment earnings in pooled or common investments in which multiple funds are invested are allocated among the funds in a proportion of each fund's beginning fair value to the total. Investments contributed to the Trust are recorded at the fair value on the date of the gift. Purchases and sales are accounted for on the settlement date. The increase or decrease in the fair value of investments is recorded on a monthly basis. Earnings are recorded monthly. Authorized investments include U.S. government/government-insured securities, corporate stocks and bonds, and open-ended mutual funds, as authorized by trust agreements and The Citadel Trust Board of Directors.

As of June 30, 2008, The Trust had investments and maturities as shown below:

Investment Type	Fair Value	Investment Maturities (in years)			
		Less Than 1	1-5	6-10	More than 10
Money Market Funds	\$ 7,063,984	\$ 7,063,984	\$ -	\$ -	\$ -
U.S. Treasury Bonds	4,707,933	10,066	3,598,463	948,406	150,998
U.S. Agency Bonds	3,800,608	255,825	2,950,643	550,985	43,155
Corporate Bonds	6,847,788	560,700	5,014,182	1,059,108	213,798
Municipal Bonds	553,812	-	370,090	183,722	-
Mutual Bond Funds	107,971	-	24,574	83,397	-
Total fixed income investments	23,082,096	<u>\$ 7,890,575</u>	<u>\$ 11,957,952</u>	<u>\$ 2,825,618</u>	<u>\$ 407,951</u>
Common Stocks	27,388,509				
Mutual Equity Funds	11,930,961				
Exchange Traded Equity Funds	4,889,853				
Total investments	<u>\$ 67,291,419</u>				

Custodial Credit Risk: Custodial credit risk is risk that the investor will not be able to recover the value of its investments that are in the possession of its safekeeping custodian. All of The Trust's investments are either insured or collateralized with securities held by the entity or by its agent in the entity's name, or collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name. The Trust has a formal investment policy that requires all investments held at banks to be held in a bank trust department in a collateralized form.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Citadel Trust investment policy states, "The Trust Board of Directors is aware of interest rate risk to bond principal valuation. Long dated bonds, which have the most principal risk in a rising interest rate environment, may be used by investment managers whose style utilizes strategies which include long dated bonds."

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Citadel Trust's investment policy addresses credit risk by requiring that each fixed income portfolio manager for its pooled investment fund maintain an overall weighted average credit rating of Baa/BBB or better by Moody's and Standard and Poors rating services, respectively. In addition, the minimum acceptable credit quality rating for a new purchase is investment grade (Baa/BBB). In the event a bond is downgraded below investment grade, the investment manager shall immediately evaluate the fixed income portfolio position and take appropriate action. An exception to holding below investment grade bonds is the ownership by The Trust of bond index pooled vehicles.

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At June 30, 2008, The Trust had debt securities and quality ratings as shown below:

Investment Type	Fair Value	Quality Rating				
		Aaa/Aa	A	Baa	Unrated	N/A
Money Market Funds	\$ 7,063,984	\$ -	\$ -	\$ -	\$ 7,063,984	\$ -
U.S. Treasury Bonds	4,707,933	-	-	-	-	4,707,933
U.S. Agency Bonds	3,800,608	-	-	-	3,800,608	-
Corporate Bonds	6,847,788	2,235,101	3,075,372	1,299,363	237,952	-
Municipal Bonds	553,812	553,812	-	-	-	-
Mutual Bond Funds	107,971	107,971	-	-	-	-
Totals	<u>\$ 23,082,096</u>	<u>\$ 2,896,884</u>	<u>\$ 3,075,372</u>	<u>\$ 1,299,363</u>	<u>\$ 11,102,544</u>	<u>\$ 4,707,933</u>

Unrated investments include Money Market Funds which are invested in commercial paper and other short-term obligations rated by a nationally recognized rating organization in the highest short-term rating category, or, if unrated, of equivalent quality, and in other corporate obligations and municipal obligations rated in the two highest rating categories, or if unrated, of equivalent quality.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of The Trust's investment in a single issuer. The Trust's policy for reducing this risk of loss is to require each investment manager to limit the investment in any one issuer to a maximum of 5% for equity investments (with the exception of one manager who manages approximately \$3.6 million) and 10% for fixed income investments (except for securities issued by the U.S. government and its agencies). The Trust's Board of Directors reviews substantial equity positions for the entire investment pool on a quarterly basis. At June 30, 2008 there were no single issuer investments that exceeded 5%.

Foreign Currency Risk. Foreign currency risk is the risk of loss arising from changes in exchange rates for investments denominated in foreign currencies. The Trust's international investment allocation is invested in U.S. dollar denominated mutual funds and exchange traded funds – the American Funds EuroPacific Growth Fund, American Funds Capital World Growth and Income Fund, and Vanguard Emerging Markets ETF. These funds invest in companies based chiefly in Europe, the Pacific Basin, Asia and Latin America. The market value of these holdings at June 30, 2008 was \$11,511,059. The Trust foreign currency risk policy states: "The Trust Board of Directors is aware of the risk from fluctuating currency values in that portion of the fund which is invested in international securities. Investment managers who invest in international securities may purchase and sell currencies to facilitate currency exchange rates. Such currency transactions are at the discretion of the international investment manager(s) and it is recognized by the Board of Directors of The Citadel Trust that while entering into forward currency transactions could minimize the risk of loss due to decline in the value of the hedged currency, such transactions could also limit any potential gain that may result from an increase in the value of the currency."

Investments – Non Governmental Discretely Presented Component Units

The Citadel Brigadier Foundation

Investment earnings in pooled or common investments in which multiple funds are invested are allocated among the funds in a proportion of each funds beginning fair value to the total.

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At June 30, 2008, TCBF's investments are as follows:

Investments carried at fair value	Cost	Fair Value
Equity funds and individual securities	\$ 4,925,031	\$ 5,077,976
Fixed income funds and individual debt securities	2,214,342	2,114,359
Total investments	\$ 7,139,373	\$ 7,192,335

The Citadel Foundation

TCF maintains master investment accounts for its individual accounts. Realized and unrealized gains and losses and income from securities in the master investment accounts are allocated periodically to the individual accounts based on the relationship of the market value of each individual account to the total market value of the master investment accounts, as adjusted for additions to or deductions from those accounts.

Long-term investments held by TCF are carried at fair value and as of December 31, 2007, were composed of the following:

	Cost	Fair Value
Equity Securities		
Various equity securities	\$ 51,666,516	\$ 55,585,662
International funds	29,356,443	39,426,431
Mutual funds	31,423,330	38,292,998
Total equity securities	112,446,289	133,305,091
Debt Securities		
Corporate debt securities	5,019,721	5,060,180
Government bonds	21,898,863	21,772,996
Mortgage backed securities	1,940,050	1,906,693
Total debt securities	28,858,634	28,739,869
Money funds – temporarily held	1,822,756	1,822,756
Cash – temporarily held	52,937	52,937
Total money funds and cash	1,875,693	1,875,693
Total	\$ 143,180,616	\$ 163,920,653

NOTE 3—RECEIVABLES

Accounts Receivable

Accounts receivable as of June 30, 2008, are summarized as follows:

	Citadel	Citadel Trust	Total
Receivables:			
Student fees	\$ 6,590,032	\$ -	\$ 6,590,032
Grants and contracts	302,202	47	302,249
Accrued interest	184,561	238,267	422,828
Capital Reserve Fund proceeds	821,704	-	821,704
Other	287,527	44,890	332,417
Gross receivables	8,186,026	283,204	8,469,230
Less allowance for uncollectibles:			
Student fees	139,852	-	139,852
Accounts receivable, net	\$ 8,046,174	\$ 283,204	\$ 8,329,378

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Allowances for losses for accounts receivable are established based upon actual losses experienced in prior years and evaluations of the current account portfolio.

Contributions Receivable

Contributions receivable are comprised of pledges for gifts to support College. Contributions receivable are accounted for at their estimated net realizable value or the present value of long-term pledges. Discount to present value was calculated using a 2% and 5% interest rate for 2008 and 2007, respectively. The composition of contributions receivable at June 30, 2008, is summarized as follows:

	Citadel	Citadel Trust	Total
Gift Pledges Outstanding:			
Operations	\$ 493,000	\$ 532,162	\$ 1,025,162
Total gift pledges outstanding	493,000	532,162	1,025,162
Less:			
Unamortized discount to present value	56,269	48,484	104,753
Allowance for doubtful accounts	-	73,868	73,868
Total pledges receivable, net	\$ 436,731	\$ 409,810	\$ 846,541

Payments on contributions receivable as of June 30, 2008, are expected to be received in the following years ending June 30:

	Citadel	Citadel Trust	Total
2009	\$ 150,880	\$ 227,932	\$ 378,812
2010	73,689	76,915	150,604
2011	76,198	76,183	152,381
2012	71,952	19,536	91,488
2013	64,012	7,089	71,101
Due after 2013	-	2,155	2,155
	\$ 436,731	\$ 409,810	\$ 846,541

Pledges for permanent endowments do not meet the eligibility requirements, as defined by GASB Statement 33, until the related gift is received. Accordingly, permanent endowment pledges to the Trust totaling \$1,000,571 are not recognized as assets in the accompanying financial statements. Because of uncertainties with regard to their realizability and valuation, bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met.

Student Loans Receivable

Loans receivable consists of loans made through the Trust's loan program and loans made through the Federal Perkins Loan Program. Citadel Trust student loans receivable are broken down into two classifications – (1) those payments that will be received within the following fiscal year are classified as "current portion of loans receivable", (2) the remaining payments are classified as noncurrent loans receivable. All Perkins student loans receivable are classified as noncurrent loans receivable.

The Perkins Loan program provides various repayment options; students have the right to repay the loans over periods up to 10 years depending on the amount of the loan and loan cancellation privileges the student may exercise. As the College determines that loans are uncollectible, the loans are written off and assigned to the US Department of Education. The Trust's loan program is administered similarly; except these loans are non-cancelable and written-off loans are not assigned to the US Department of Education. The Trust has provided an allowance for uncollectible loans, which, in management's opinion, is sufficient to absorb loans that will ultimately be written off.

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Student loans receivable at June 30, 2008 are summarized as follows:

	Citadel	Citadel Trust	Total
Loans receivable	\$ 605,849	\$ 393,388	\$ 999,237
Less allowance for uncollectible loans	-	254,144	254,144
Net loans receivable	<u>\$ 605,849</u>	<u>\$ 139,244</u>	<u>\$ 745,093</u>

NOTE 4 – RESTRICTED ASSETS

The purposes and amounts of restricted assets at June 30, 2008 are as follows:

Asset /Restricted for	Citadel	Citadel Trust
Current:		
Cash and cash equivalents:		
Donor/sponsor specified	\$ 4,362,038	\$ 1,250,697
Debt service	85,036	-
College administered loan program	-	197,693
Total cash and cash equivalents	<u>\$ 4,447,074</u>	<u>\$ 1,448,390</u>
Investments:		
Donor/sponsor specified	<u>\$ -</u>	<u>\$ 8,440,423</u>
Contributions Receivable:		
Donor/sponsor specified	<u>\$ 150,880</u>	<u>\$ 148,104</u>
Student Loans Receivable:		
College administered loan program	<u>\$ -</u>	<u>\$ 84,153</u>
Noncurrent:		
Cash and cash equivalents		
Endowment	\$ 258,705	\$ 3,270,404
Federal Perkins loan program	84,177	-
Capital projects	5,509,778	2,389,651
Cash held for other parties	136,416	-
Total cash and cash equivalents	<u>\$ 5,989,076</u>	<u>\$ 5,660,055</u>
Investments:		
Endowment	\$ -	\$ 44,460,986
College administered loan program	-	925,124
Total investments	<u>\$ -</u>	<u>\$ 45,386,110</u>
Contributions Receivable		
Donor/sponsor specified	<u>\$ 285,851</u>	<u>\$ 173,996</u>
Total contributions receivable	<u>\$ 285,851</u>	<u>\$ 173,996</u>
Student Loans Receivable		
College administered loan program	\$ -	\$ 55,091
Federal Perkins Loan Program	605,849	-
Total student loans receivable	<u>\$ 605,849</u>	<u>\$ 55,091</u>
Cash Surrender Value of Life Insurance:		
Endowments	<u>\$ -</u>	<u>\$ 385,862</u>

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NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008, is summarized as follows:

	July 1, 2007	Increases	Decreases	June 30, 2008
Capital assets not being depreciated:				
Land and improvements	\$ 4,800,669	\$ -	\$ -	\$ 4,800,669
Construction-in-progress	2,547,567	13,683,430	840,621	15,390,376
Fine arts	350,720	-	-	350,720
Total capital assets not being depreciated	<u>7,698,956</u>	<u>13,683,430</u>	<u>840,621</u>	<u>20,541,765</u>
Other capital assets:				
Land improvements	8,420,447	546,959	-	8,967,406
Buildings and improvements	153,234,725	293,662	-	153,528,387
Machinery, equipment, and other	5,120,590	370,517	200,744	5,290,363
Vehicles	697,683	51,766	113,239	636,210
Intangibles	154,875	818,767	-	973,642
Total other capital assets at historical cost	<u>167,628,320</u>	<u>2,081,671</u>	<u>313,983</u>	<u>169,396,008</u>
Less accumulated depreciation for:				
Land improvements	3,881,689	594,709	-	4,476,398
Buildings and improvements	41,583,094	3,470,683	-	45,053,777
Machinery, equipment, and other	3,539,139	419,871	185,756	3,773,254
Vehicles	595,839	46,772	113,239	529,372
Intangibles	105,315	38,946	-	144,261
Total accumulated depreciation	<u>49,705,076</u>	<u>4,570,981</u>	<u>298,995</u>	<u>53,977,062</u>
Other capital assets, net	<u>117,923,244</u>	<u>(2,489,310)</u>	<u>14,988</u>	<u>115,418,946</u>
Capital assets, net	<u>\$ 125,622,200</u>	<u>\$ 11,194,120</u>	<u>\$ 855,609</u>	<u>\$ 135,960,711</u>

The gain (loss) on disposal of assets consisted of the following:

Gain on disposal	\$ 23,440
Loss on disposal	(9,387)
Net gain (loss) on disposal	<u>\$ 14,053</u>

NOTE 6—DEFERRED REVENUES

The composition of deferred revenues at June 30, 2008, is summarized as follows:

	Citadel	Citadel Trust	Total
Student fees	\$ 1,089,263	\$ -	\$ 1,089,263
Sales and services, educational & other	3,170	-	3,170
Sales and services, auxiliary enterprises	3,276,967	-	3,276,967
Federal grants and contracts	76,840	-	76,840
Private grants and contracts	153,993	44,355	198,348
Total deferred revenue	<u>\$ 4,600,233</u>	<u>\$ 44,355</u>	<u>\$ 4,644,588</u>

During fiscal year 2007 The Citadel entered into a ten year contract with Daktronics Inc. under which Daktronics agreed to provide and install certain equipment and concourse elements at Citadel athletic facilities in exchange for advertising rights at athletic events. Daktronics furnished a scoreboard system

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valued at \$1,700,000 in fiscal year 2007 and anticipates furnishing additional equipment in future years, including a scoreboard for the basketball arena and an electronic billboard for the football stadium. The contract with Daktronics establishes an annual revenue threshold. When advertising revenues exceed the threshold, Daktronics and The Citadel split the excess revenue equally. If athletic advertising does not meet the threshold in any year, that deficit is carried over to the next year and added to the threshold for the following year. Should a deficiency remain at the end of the ten year contractual period, the deficiency will be carried over to the next contract period if the contract with Daktronics is extended. If another contractor is chosen management anticipates that contractor will pay The Citadel the amount of the deficiency and The Citadel will pay that amount to Daktronics. Management believes that the contract is structured so that The Citadel is not required to fund any deficiency that may exist at the end of the 10 year contract period.

The Citadel treated this transaction as a sale of future revenues. The College will not maintain an active involvement in the future generation of advertising revenues. The College is amortizing the deferred revenues in a straight line fashion over the ten years of the contract period. In fiscal year 2008 \$170,000 of the deferred amount was recognized as revenue. \$170,000 of the remaining Daktronics' deferred revenue is recorded as current deferred revenue, and the remaining \$1,190,000 is recorded as noncurrent deferred revenue.

The Citadel entered into a ten year contract with ARAMARK for campus food service in fiscal year 2007. The contract required ARAMARK to pay The Citadel \$2 million at the beginning of the contract period. This payment will be amortized over the life of the contract and in the case of early termination the unamortized portion will be returned to ARAMARK. \$200,000 of this contractual payment was recognized as revenue in the current year. \$200,000 of the remaining ARAMARK contractual revenue is recorded as current deferred revenue, and the remaining \$1,400,000 is recorded as noncurrent deferred revenue.

NOTE 7—BONDS AND NOTES PAYABLE

Bonds Payable

Bonds payable consisted of the following at June 30, 2008:

	Interest Rate	Maturity Dates	Balance June 30, 2008	Debt Retired in Fiscal Year 2008
Institution Bonds				
Series 2001D	4.25% to 5.50%	12/01/2016	\$ 1,870,000	\$ 165,000
			<u>1,870,000</u>	
Revenue Bonds				
Series 1997	4.875% to 5.125%	04/01/2013	3,455,000	1,135,000
Series 2005	2.5% to 4.5%	04/01/2029	24,775,000	545,000
			<u>28,230,000</u>	
Athletic Facilities Revenue Bonds				
Series 2003	4.19%	02/15/2018	2,307,772	182,867
Series 2005	4.19%	02/15/2015	4,447,180	536,362
Series 2006	7.17%	02/01/2031	8,680,000	-
Series 2007	6.81%	02/01/2017	6,000,000	-
			<u>21,434,952</u>	
Subtotal Bonds Payable			51,534,952	2,564,229
Less unamortized bond discount and deferred loss on bonds			726,824	130,430
Total Bonds Payable			<u>\$ 50,808,128</u>	<u>\$ 2,433,799</u>

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State institution bonds are general obligations bonds of the State backed by the full faith, credit, and taxing power of the State. Tuition revenue is pledged up to the amount of the annual debt requirements for the payment of principal and interest on state institution bonds. S.C. Code of Laws section 59-107-90 states that the maximum amount of annual debt service on state institution bonds for each institution shall not exceed ninety percent of the sums received from tuition fees for the preceding fiscal year. Tuition fees for the preceding year were \$585,525 which results in a legal debt margin at June 30, 2008, of \$526,973. The Citadel's maximum annual debt service, which occurs in fiscal year 2015, is \$258,210.

General revenue bonds are payable from and secured by a pledge of net revenues derived by The Citadel from the operation of the facilities constructed with the bond proceeds. These bonds are additionally secured by a pledge of additional funds. Additional funds are all available funds and academic fees of The Citadel which are not (1) otherwise designated or restricted; (2) funds derived from appropriations; and (3) tuition funds pledged to the repayment of State institution bonds. Athletic facilities revenue bonds are payable from and secured by a pledge of two sources of revenue: the Athletic Facility Fee and the Athletic Fee.

The Citadel has secured insurance contracts for The Series 1997 and Series 2007 Revenue Bonds that guarantee payment of principal and interest, in the case such required payment has not been made, for a period equal to the final maturity of the bonds. Certain of the bonds payable are callable at the option of The Citadel.

As of June 30, 2008, management believes it is in compliance with all related bond covenants of its issued debt.

During the fiscal year ended June 30, 2008 The Citadel issued Athletic Facilities Taxable Revenue Bonds, Series 2007, in the amount of \$6,000,000. The proceeds of these bonds are being used to fund the construction of skyboxes for Johnson Hagood Stadium. \$11,500 of bond issue costs associated with this issuance is being amortized over the 10 year life of the bonds.

All bonds are payable in semiannual installments plus interest, with the exception of the Athletic Facilities Revenue Bonds, Series 2003, which are payable in annual installments, and the Athletic Facilities Taxable Revenue Bonds, Series 2006, which require interest only payments for the first three years. The scheduled maturities of bonds payable by type are as follows:

State Institution Bonds	Principal	Interest	Payments
2009	\$ 170,000	\$ 81,775	\$ 251,775
2010	180,000	74,006	254,006
2011	185,000	65,678	250,678
2012	200,000	56,900	256,900
2013	205,000	47,787	252,787
2014 – 2017	930,000	89,883	1,019,883
	<u>\$ 1,870,000</u>	<u>\$ 416,029</u>	<u>\$ 2,286,029</u>
Revenue and Athletic Facilities Bonds			
2009	\$ 3,004,601	\$ 2,438,149	\$ 5,442,750
2010	3,315,254	2,304,905	5,620,159
2011	3,460,245	2,152,561	5,612,806
2012	3,628,628	1,986,470	5,615,098
2013	3,801,464	1,815,906	5,617,370
2014 – 2018	16,684,760	6,459,613	23,144,373
2019 – 2023	5,505,000	3,846,053	9,351,053
2024 – 2028	5,230,000	2,241,781	7,471,781
2029 – 2031	5,035,000	438,058	5,473,058
	<u>\$ 49,664,952</u>	<u>\$ 23,683,496</u>	<u>\$ 73,348,448</u>

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The Citadel reported principal and interest payments related to the bonds as follows for the year ended June 30, 2008:

Bond Type	Principal	Interest
State Institution Bonds	\$ 165,000	\$ 89,041
Revenue Bonds	1,680,000	1,201,638
Athletic Facilities Revenue Bonds	719,229	1,001,469
	<u>\$ 2,564,229</u>	<u>\$ 2,292,148</u>

Notes Payable

At June 30, 2008, notes payable consisted of the following:

Note payable secured by Athletic ticket sales, facility rentals and student fees, dated 8/01/81, revised 12/08/89, payable in annual installments of \$37,172, matures December 2009, interest rate of 6.8%.

\$34,806

The scheduled maturities of the notes payable are as follows:

Note Payable	Principal	Interest	Payments
2009	\$ 34,806	\$ 2,366	\$ 37,172
	<u>\$ 34,806</u>	<u>\$ 2,366</u>	<u>\$ 37,172</u>

Total principal paid on notes payable was \$32,589 for the year ended June 30, 2008. Total interest paid on notes payable was \$4,583.

NOTE 8—LEASE OBLIGATIONS

The Citadel's future commitments for capital leases and for operating leases having remaining noncancelable terms in excess of one year as of June 30, 2008 were as follows:

Year ending June 30,	Capital Leases/ Equipment	Operating Leases/ Equipment
2009	\$ 40,958	\$ 639
2010	15,629	-
Total minimum lease payments	56,587	<u>\$ 639</u>
Less: Interest	5,144	
Executory and other costs	16,224	
Present value of minimum lease payments	<u>\$ 35,219</u>	

All leases are with parties outside state government.

Capital Leases

Capital leases for various pieces of equipment are payable in monthly installments from current resources. Expenditures for fiscal year 2008 were \$40,960, of which \$8,556 represented interest and \$11,107 represented executory costs. Total principal paid on capital leases was \$21,297 for the year

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ended June 30, 2008. The following is a summary of the carrying values of assets held under capital lease at June 30, 2008.

Equipment acquired under capital leases	\$ 87,304
Less accumulated amortization	<u>62,832</u>
Equipment acquired under capital leases, net	<u>\$ 24,472</u>

Operating Leases

The Citadel's noncancelable operating leases provide for renewal options for periods from one to five years at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases. Operating leases are generally payable on a monthly basis. Total operating lease expense in fiscal year 2008 was \$639.

In the current fiscal year, The Citadel incurred expenses of \$73,308 for office copier service on a cost-per-copy basis.

NOTE 9—RETIREMENT PLANS

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each pension plan. Employee and employer contribution rates for the South Carolina Retirement System and the Police Officers Retirement System are actuarially determined. Annual benefits, payable monthly for life, are based on length of service and on average final compensation.

South Carolina Retirement System

The majority of employees of The Citadel are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost-of-living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Since July 1, 2006 employees participating in the SCRS have been required to contribute 6.50 percent of all compensation. Effective July 1, 2007, the employer contribution rate became 12.48 percent which included a 3.42 percent surcharge to fund retiree health and dental insurance coverage. The Citadel's actual contributions to the SCRS for the three most recent fiscal years ended June 30, 2006, 2007, and 2008, were \$1,790,810, \$1,766,776 and \$2,196,918 respectively, and equaled the required contributions of 8.05 percent for 2006 and 9.06 for 2007 and 2008 (excluding the surcharge) for each year. Also, The Citadel paid employer group-life insurance contributions of \$36,373 in the current fiscal year at the rate of .15 percent of compensation.

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Police Officers Retirement System

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple-employer defined benefit public employee retirement plan administered by the Retirement Division. Generally all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to the System as a condition of employment. This plan provides annuity benefits as well as disability and group-life insurance benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 2007, the employer contribution rate became 13.72 percent which, as for the SCRS, included the 3.42 percent surcharge. The Citadel's actual contributions to the PORS for the years ended June 30, 2006, 2007, and 2008, were \$56,575, \$58,505 and \$61,779 respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, The Citadel paid employer group-life insurance contributions of \$1,200 and accidental death insurance contributions of \$1,200 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

Optional Retirement Program

Certain State employees may elect to participate in the Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 17, of the South Carolina Code of Laws. The ORP provides retirement and death benefits through the purchase of individual fixed or variable annuity contracts which are issued to, and become the property of, the participants. The State assumes no liability for this plan other than for payment of contributions to designated insurance companies.

ORP participation is available to all permanent employees of the State's higher education institutions who meet all eligibility requirements for membership in the SCRS. To elect participation in the ORP, eligible employees must irrevocably waive SCRS membership within their first ninety days of employment.

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 9.06 percent plus the retiree surcharge of 3.42 percent from the employer in fiscal year 2008.

Certain of The Citadel's employees have elected to be covered under optional retirement plans. For the fiscal year, total contribution requirements to the ORP were \$865,364 (excluding the surcharge) from The Citadel as employer and \$620,846 from its employees as plan members. In addition, The Citadel paid \$14,327 for group-life insurance coverage for these employees. All amounts were remitted to the Retirement Division of the State Budget and Control Board for distribution to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies.

Deferred Compensation Plans

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of The Citadel have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

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Teacher and Employee Retention Incentive

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost-of-living adjustments granted during the TERI period.

TERI participants are eligible to receive group life insurance benefits, but are not eligible for disability retirement benefits. Effective July 1, 2006 TERI participants are required to pay the same pre-tax contribution to the SC Retirement System during the TERI period, but they do not earn service credit.

NOTE 10—POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents. The Citadel contributes to the Retiree Medical Plan (RMP) and the Long-term Disability Plan (LTDP), cost-sharing multiple-employer defined benefit postemployment healthcare and long-term disability plans administered by the Employee Insurance Program (EIP), a part of the State Budget and Control Board (SBCB). Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires May 2, 2008 and after, retirees are eligible for benefits if they have established twenty-five years of service for 100% employer funding and fifteen through twenty-four years of service for 50% employer funding. Benefits become effective when the former employee retires under a State retirement system. Basic long-term disability (BLTD) benefits are provided to active state, public school district and participating local government employees approved for disability.

Section 1-11-710 and 1-11-720 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment healthcare and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the EIP and participating retirees to the SBCB except the portion funded through the pension surcharge and provided from other applicable sources of the EIP for its active employees who are not funded by State General Fund appropriations. Employers participating in the RMP are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 3.42% and 3.35% of annual covered payroll for 2008 and 2007, respectively. The EIP sets the employer contribution rate based on a pay-as-you-go basis. The Citadel paid \$1,160,236 and \$1,043,314 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2008 and 2007, respectively. BLTD benefits are funded through a per person premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to EIP was \$3.23 for the fiscal years ended June 30, 2008 and 2007.

Effective May 1, 2008 the State established two trust funds through Act 195 for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and long-term disability insurance benefits. The South Carolina Retiree Health Insurance Trust Fund is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated EIP reserves, and income generated from investments. The Long Term Disability Insurance Trust Fund is primarily funded through investment income and employer contributions.

One may obtain complete financial statements for the benefit plans and the trust funds from Employee Insurance Program, 1201 Main Street, Suite 360, Columbia, SC 29201.

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NOTE 11—LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2008, was as follows:

	July 1, 2007	Additions	Reductions	June 30, 2008	Due Within One Year
Bonds and Notes Payable and Capital Lease Obligations:					
State Institution Bonds	\$ 2,035,000	\$ -	\$ 165,000	\$ 1,870,000	\$ 170,000
Less unamortized bond discount	4,424	-	757	3,667	695
Total State Institution Bonds	2,030,576	-	164,243	1,866,333	169,305
Revenue Bonds	29,910,000	-	1,680,000	28,230,000	1,750,000
Athletic Facilities Revenue Bonds	16,154,181	6,000,000	719,229	21,434,952	1,254,600
Less deferred loss on refunding	476,740	-	82,911	393,829	82,911
Less unamortized bond discount	364,589	11,500	46,761	329,328	42,864
Total Revenue Bonds Payable	45,222,852	5,988,500	2,269,557	48,941,795	2,878,825
Total Bonds Payable	47,253,428	5,988,500	2,433,800	50,808,128	3,048,130
Notes Payable	67,395	-	32,589	34,806	34,806
Capital Lease Obligations	56,516	-	21,297	35,219	25,382
Total Bonds, Notes & Capital Leases	47,377,339	5,988,500	2,487,686	50,878,153	3,108,318
Other Liabilities					
Accrued compensated absences	2,308,707	1,419,781	1,268,288	2,460,200	1,268,288
Federal loan funds	477,103	7,660	-	484,763	-
Deferred revenue	4,969,161	1,640,233	1,964,806	4,644,588	2,054,588
Deposits	1,671,948	1,297,463	1,081,550	1,887,861	1,118,276
Annuities payable	25,720	8,066	8,190	25,596	8,190
Funds held for others	-	34,776,177	34,639,761	136,416	-
Total Other Liabilities	9,452,639	39,149,380	38,962,595	9,639,424	4,449,342
Total Noncurrent Liabilities	\$ 56,829,978	\$ 45,137,880	\$ 41,450,281	\$ 60,517,577	\$ 7,557,660

Additional information regarding Bonds and Notes Payable is included in Note 7. Additional information regarding Capital Lease Obligations is included in Note 8. Additional information regarding Deferred Revenues is included in Note 6.

NOTE 12—CONSTRUCTION COSTS AND COMMITMENTS

Capitalized

The Citadel has obtained the necessary funding for the acquisition, construction, renovation, and equipping of certain facilities which will be capitalized in the applicable plant asset categories upon completion. Management estimates that The Citadel has sufficient resources available and/or future resources identified to satisfactorily complete the construction of these projects which are expected to be completed in varying phases over the next five years at an estimated cost of \$33,667,356. Of the total estimated cost, approximately \$18,300,000 is unexpended at June 30, 2008. Of the unexpended balance at June 30, 2008, The Citadel had remaining commitment balances of approximately \$18,000,000 with certain property owners, engineering firms, construction contractors, and vendors related to these projects. Retainages payable on these projects as of June 30, 2008, were \$55,560. During the current year The Citadel capitalized substantially complete and in-use projects in the amount of \$840,621.

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Major capital projects at June 30, 2008, which constitute construction in progress that will be capitalized when completed, are listed below.

Project Title	Estimated Cost	Amount Expended
Stevens Barracks Renovation	\$ 2,250,000	\$ 1,495,024
Charleston Readiness Center	31,417,356	13,895,352
	<u>\$ 33,667,356</u>	<u>\$ 15,390,376</u>

The amount expended includes only capitalized project expenditures and capitalized interest on construction debt for projects that are less than 90% complete and does not include any noncapitalized expenditures.

Non-Capitalized

At June 30, 2008 The Citadel had in progress other capital projects which are not to be capitalized when complete. These projects are for replacements, repairs, and/or renovations to existing facilities. Estimated costs on these non-capitalized projects total \$4,202,546. This amount includes costs incurred to date of \$2,312,970 and estimated costs to complete of \$1,889,576. The Citadel has remaining commitment balances with certain parties related to these projects of \$618,329. Retainages payable on the non-capitalized projects as of June 30, 2008, were \$25,617.

The Citadel anticipates funding these projects out of current resources, current and future bond issues, private gifts, student fees, and state bond proceeds. The State has provided capital reserve funds and research infrastructure bonds to fund improvements and expansion of state facilities. The Citadel is not obligated to repay these funds to the State. Authorized funds can be requested as needed once State authorities have given approval to begin specific projects and project expenditures have been incurred. At June 30, 2008 The Citadel had \$456,101 of authorized research infrastructure bonds and \$247,507 of capital reserve funds remaining.

NOTE 13—DONOR RESTRICTED ENDOWMENTS

The Citadel Trust manages most donor-restricted endowments. If a donor has not provided specific instructions, State law permits The Citadel Trust Board of Directors to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

The Citadel Trust chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the policy established by the Trust Board of Directors, 5 percent of the average market value of endowment investments at the end of the previous twelve quarters has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending policy exceeds the investment income. At June 30, 2008, net appreciation of \$4,293,404 is available to be spent, of which \$4,248,380 is restricted to specific purposes.

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NOTE 14—SPLIT INTEREST AGREEMENTS

In December 1993 a benefactor established a charitable remainder uni-trust, consisting of publicly traded common stock valued at \$60,000,000, to which The Citadel Trust, Inc., is entitled to one-third of the remaining assets upon the benefactor's death. During fiscal year 2003 the above donor distributed approximately \$1 million of stock from this charitable remainder uni-trust to each of the three beneficiaries. Annually the uni-trust is to pay to the benefactor 6% of the net fair market value of the assets in the charitable remainder trust, valued as of the first day of each taxable year of such trust. If income from these assets is insufficient to pay this amount, it will be paid from principal. The uni-trust is irrevocable and is not managed by The Citadel or The Citadel Trust. Since the ultimate amount received cannot be reasonably estimated and the eligibility requirement for the gift has not been met, these uni-trust assets are not included in these financial statements.

During fiscal year 1999 another donor established a charitable remainder trust (CRT), consisting of assets valued at less than \$600,000, to which the Trust is entitled to all of the remaining assets upon the death of the CRT beneficiaries. The pledge for the CRT is restricted for scholarships. The CRT is irrevocable and is not managed by The Citadel or The Citadel Trust. Since the ultimate amount received cannot be reasonably estimated and the eligibility requirement for this gift has not been met, these trust assets are not included in these financial statements.

During fiscal year 2000 a donor established a charitable gift annuity that provides for fixed payments to the donor for his lifetime. At the termination of the agreement the remaining assets of the gift annuity will become available to The Citadel Trust for general institutional purposes. This annuity fund is held and separately managed by The Citadel Trust. At the end of each fiscal year an adjustment is made between the liability and the nonexpendable net asset value to record the actuarial gain or loss due to the recomputation of the present value of the liability based on the revised life expectancy of the donor. At June 30, the present value of the annuity payable was \$25,596.

NOTE 15—BLENDED COMPONENT UNITS

The following is a summary of the receivables and payables between The Citadel and its blended component unit at June 30, 2008:

	Due from	Due to
The Citadel		
The Citadel Trust	\$ <u>1,039,415</u>	
The Citadel Trust		
The Citadel		\$ <u>1,039,415</u>

NOTE 16—DISCRETELY PRESENTED COMPONENT UNITS

Certain separately chartered legal entities whose activities are related to those of The Citadel exist primarily to provide financial assistance and other support to the College and its educational program. They include The Citadel Foundation (TCF) and The Citadel Brigadier Foundation (TCBF). Because the activities and resources of these entities are for the sole benefit of The Citadel, they are considered component units of the College and are discretely presented in The Citadel's financial statements as non-governmental reporting entities. Following is a more detailed discussion of each of these entities and a

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summary of the significant transactions between these entities and The Citadel for the year ended June 30, 2008.

The Citadel Foundation (TCF)

For the fiscal year ended June 30, 2008, TCF received current year contributions of \$5,805,220 on behalf of The Citadel and The Citadel Trust -- \$3,280,593 of this total was recorded as gifts, \$2,238,903 was recorded as additions to permanent endowments, and \$285,724 was recorded as capital gifts in nonoperating revenues. The Citadel Trust paid TCF a fee of \$446,409 for its fundraising services.

In addition, The Citadel and The Citadel Trust recorded non-governmental grants of \$4,869,256 and capital grants of \$1,882,683 from TCF for the fiscal year ended June 30, 2008. These funds were used to support scholarships, salaries and various academic programs and construction projects at the College.

TCF reimburses The Citadel for certain expenses incurred on behalf of TCF. The reimbursement totaled \$144,807 for the year ended June 30, 2008. TCF also provided \$13,266 to partially fund The Citadel Magazine.

The amount due from TCF varies during the fiscal year based on amounts due for grants and expenses incurred on behalf of TCF and contributions collected by TCF on behalf of The Citadel. TCF's balance sheet dated December 31, 2007, shows a grant payable to The Citadel of \$2,696,673. The amount due to The Citadel from TCF at June 30, 2008, is \$39,348.

The Citadel Brigadier Foundation (TCBF)

The Citadel recorded non-governmental grants of \$1,128,101 from TCBF in the fiscal year ended June 30, 2008. These grants were used to support athletic scholarships at the College.

TCBF reimburses The Citadel for certain expenses incurred on behalf of TCBF. The reimbursement totaled \$405,014 for the year ended June 30, 2008. TCBF did not owe The Citadel at June 30, 2008.

NOTE 17 – RELATED PARTIES

Citadel Alumni Association (CAA) is a separately chartered corporation organized exclusively to promote alumni activities at The Citadel. CAA's activities are governed by its Board of Directors. CAA net assets totaled \$4,968,308 at December 31, 2007.

The activities of CAA are not included in The Citadel's financial statements. However, The Citadel's statements include transactions between the College and the CAA. Following is a summary of the significant transactions between The Citadel and CAA for the year ended June 30, 2008.

The College shares the costs of operating the newly renovated John Monroe Holliday Alumni Center building with CAA. Expenses related to routine operations of the alumni center are allocated based on the joint use of the building by Citadel staff who function as both the College Alumni Office and the Alumni Association Office. All expenses related to income production are borne by the CAA. CAA prepares an annual accounting of the net income of rental activities each May. After covering CAA income producing costs, any amount remaining is split on the same basis as building operating expenses. For the year ended June 30, 2008, The Citadel's share of John Monroe Holliday Alumni operating profits was \$72,000 and is recorded as other nonoperating revenue.

CAA reimburses The Citadel for certain expenses incurred on behalf of CAA. The reimbursement totaled \$359,180 for the year ended June 30, 2008.

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NOTE 18 – TRANSACTIONS WITH STATE ENTITIES

The Citadel is granted an annual appropriation for operating purposes as authorized by the General Assembly of the State of South Carolina. State appropriations are recognized as revenue when received and available. Amounts that are not expended by fiscal year-end lapse and are required to be returned to the General Fund of the State unless the College receives authorization from the General Assembly to carry the funds over to the next year.

The original appropriation is The Citadel's base budget amount presented in the General Funds column of Section 5C, Part IA, of the 2007-08 Appropriation Act. The following is a reconciliation of the original appropriation as enacted by the General Assembly to state appropriations revenue reported in the financial statements for the fiscal year ended June 30, 2008:

<u>State Appropriations</u>	
Original appropriation	\$ 15,285,183
State raise pay plan appropriation	471,205
Employer contribution health insurance allocation	106,220
Appropriation allocations from the State Commission on Higher Education	
For parity	425,132
For Academic Endowment Match	22,829
For Technology Grant Program	495,555
Appropriation allocation from the Lowcountry Graduate Center	89,300
Total State Appropriation Revenues	<u>\$ 16,895,424</u>

The following is a reconciliation of state capital appropriations The Citadel received during the fiscal year ended June 30, 2008:

	Capital Reserve Fund Proceeds	Research Infrastructure Bond Proceeds	Total
<u>State Capital Appropriations</u>			
Proceeds drawn during the current fiscal year	\$ 1,682,091	\$ 453,977	\$ 2,136,068
Plus: Expenses incurred but not drawn during the current fiscal year	768,481	53,223	821,704
Less: Proceeds drawn but not expended during the current fiscal year	342,226	20,098	362,324
Total State Bond Proceeds	<u>\$ 2,108,346</u>	<u>\$ 487,102</u>	<u>\$ 2,595,448</u>

The Citadel received substantial funding from the Commission on Higher Education (CHE) for scholarships on behalf of students that is accounted for as operating State grants and contracts. Additional amounts received from CHE are accounted for as nonoperating revenue. The Citadel also receives State funds from various other State agencies for public service projects. The following is a summary of amounts received from State agencies for scholarships, sponsored research and public

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service projects for the fiscal year ended June 30, 2008:

Other amounts received from State agencies	Operating Revenue	Nonoperating Revenue
Received from the Commission on Higher Education (CHE):		
LIFE Scholarships	\$ 1,311,133	\$ -
Palmetto Fellows Scholarships	154,132	-
Need-Based Grants	217,113	-
Hope Scholarships	162,400	-
National Guard College Assistance Program	150,914	-
Access and Equity Competitive Grants	-	9,605
Education and Economic Development Act Grant	-	30,000
Higher Education Awareness Program	-	1,000
Received from various other state agencies	9,700	6,279
	<u>\$ 2,005,392</u>	<u>\$ 46,884</u>

The Citadel provided no significant services free of charge to any State agency during the fiscal year. Services received at no cost from State agencies include maintenance of certain accounting records by the Comptroller General; banking, bond trustee and investment services from the State Treasurer; legal services from the Attorney General; and grants services from the Governor's Office.

Other services received at no cost from the various offices of the State Budget and Control Board include pension plan administration, insurance plans administration, audit services, personnel management, assistance in the preparation of the State Budget, review and approval of certain budget amendments, procurement services, and other centralized functions.

The Citadel had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for pension and insurance plans, employee and employer contributions, insurance coverage, office supplies, and interagency mail. Significant payments were also made for unemployment and workers' compensation coverage for employees to the Employment Security Commission and State Accident Fund. The amounts of 2008 expenditures applicable to related transactions with State entities are not readily available.

The Citadel and the South Carolina National Guard (SCNG) are working together to construct a joint National Guard Readiness Center/ Press Box/Skybox facility at Johnson Hagood Football Stadium. The Citadel is leasing the land to the National Guard for 25 years and the National Guard is constructing the facility. The Citadel will capitalize the entire facility once it is completed. The estimated cost of the completed facility will be approximately \$31 million. The National Guard is funding \$15 million of the project total and The Citadel is funding the remainder. The Citadel's construction funding includes gift revenue, \$8,680,000 in athletic facility taxable revenue bonds issued in June 2006 and \$6,000,000 in athletic facility taxable revenue bonds issued in November 2007.

NOTE 19—RISK MANAGEMENT

The Citadel is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. Settlement claims have not exceeded this coverage in any of the past three years.

The State of South Carolina believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes

THE CITADEL
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Notes to the Financial Statements
June 30, 2008

substantially all the risk for the following claims of covered employees:

- Unemployment compensation benefits
- Worker's compensation benefits for job-related illnesses or injuries
- Health and dental insurance benefits
- Long-term disability and group-life insurance benefits

Employees elect health insurance coverage through either a health maintenance organization or through the State's self-insured plan.

The Citadel and other entities pay premiums to the State's Insurance Reserve Fund (IRF), which issues policies, accumulates assets to cover the risk of loss, and pays claims incurred for covered losses relating to the following activities:

- Theft, damage to, or destruction of assets
- Real property, its contents, and other equipment
- Motor vehicles and watercraft
- Torts
- Natural disasters
- Medical malpractice claims against the Infirmary

The IRF is a self-insurer and purchases reinsurance to obtain certain services and to limit losses in certain areas. The IRF's rates are determined actuarially.

The Citadel obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation.

In management's opinion, claims losses in excess of insurance coverage, if any, are unlikely and, if incurred, would be insignificant to the College's financial position. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded at year-end. Therefore, no loss accrual has been recorded for underinsured and uninsured losses.

NOTE 20—CONTINGENCIES AND LITIGATION

The Citadel currently has 2 lawsuits pending. Both are a function of the normal course of business and if lost, do not represent a material impact to the College's financial statements.

The Citadel participates in certain Federal programs. These programs are subject to financial and compliance audits by the grantor or its representatives. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Management believes disallowances, if any, will not be material.

NOTE 21 – SUBSEQUENT EVENT

At its meeting in June 2008, the Board of Visitors authorized borrowing up to \$5,100,000 from the State Master Lease program to finance the College's Enterprise Resource Program (ERP) purchase and implementation. On July 25, 2008, the College closed on a lease purchase agreement through the State Master Lease Program for a \$4,320,000, 7-year note, with an interest rate of 3.66% to fund the purchase and implementation of the ERP System.

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Notes to the Financial Statements
June 30, 2008

NOTE 22—OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification for the year ended June 30, 2008, are summarized as follows:

	Compensation and Benefits	Supplies and Services	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 19,581,034	\$ 1,598,728	\$ -	\$ 72,432	\$ -	\$ 21,252,194
Research	120,981	224,944	-	-	-	345,925
Public Service	384,107	443,524	-	5,154	-	832,785
Academic Support	4,563,113	2,155,105	-	29,615	-	6,747,833
Student Services	4,461,185	1,769,516	19,228	27,200	-	6,277,129
Institutional Support	6,584,427	1,055,043	3,057	-	-	7,642,527
Operations & Maint. of Plant	3,913,246	4,875,879	2,210,137	-	-	10,999,262
Scholarships & Fellowships	7,423	156,409	-	2,564,922	-	2,728,754
Auxiliary Enterprises	6,780,287	16,531,196	1,045,971	7,088	-	24,364,542
Depreciation	-	-	-	-	4,570,981	4,570,981
Total Operating Expenses	\$ 46,395,803	\$ 28,810,344	\$ 3,278,393	\$ 2,706,411	\$ 4,570,981	\$ 85,761,932

NOTE 23—INFORMATION FOR INCLUSION IN THE STATE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

The Citadel's transactions are reported in the Higher Education Fund, an enterprise fund, of the State of South Carolina. The following is information needed to present the College's business-type activities in the State's government-wide Statement of Activities.

<u>The Citadel</u>	<u>2008</u>	<u>2007</u>	<u>Increase/ (Decrease)</u>
Charges for services	\$ 57,731,970	\$ 53,849,480	\$ 3,882,490
Operating grants and contributions	8,415,906	8,241,899	174,007
Capital grants and contributions	2,151,361	2,742,869	(591,508)
Less expenses	87,809,475	84,216,181	3,593,294
Net program revenue (expense)	(19,510,238)	(19,381,933)	(128,305)
General revenues:			
Transfers:			
State appropriations	16,895,424	16,025,367	870,057
State capital appropriations	2,108,346	744,146	1,364,200
Capital improvement bond proceeds	-	-	-
Research infrastructure bond proceeds	487,102	1,022,543	(535,441)
Transfers from The Citadel Trust	6,254,206	4,188,416	2,065,790
Total general revenue and transfers	25,745,078	21,980,472	3,764,606
Change in net assets	6,234,840	2,598,539	3,636,301
Net assets - beginning	96,702,646	94,104,107	2,598,539
Net assets - ending	\$102,937,486	\$ 96,702,646	\$ 6,234,840

THE CITADEL
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Notes to the Financial Statements
June 30, 2008

<u>The Citadel Trust</u>	<u>2008</u>	<u>2007</u>	<u>Increase/ (Decrease)</u>
Operating grants and contributions	\$ (1,411,970)	\$ 12,374,078	\$ (13,786,048)
Capital grants and contributions	18,000	-	18,000
Less expenses	125,844	129,102	3,258
Net program revenue (expense)	(1,519,814)	12,244,976	(13,764,790)
General revenues:			
Contributions to permanent endowments	5,038,903	1,435,844	3,603,059
Transfers:			
Transfers to The Citadel	(6,254,206)	(4,188,416)	(2,065,790)
Total general revenue and transfers	(1,215,303)	(2,752,572)	1,537,269
Change in net assets	(2,735,117)	9,492,404	(12,227,521)
Net assets - beginning	72,652,137	63,159,733	9,492,404
Net assets - ending	\$ 69,917,020	\$ 72,652,137	\$ (2,735,117)

THE CITADEL
The Military College of South Carolina
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

<u>Federal grantor/pass-through grantor/program title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Total Expenditures</u>
<u>Research and Development Cluster:</u>			
Department of Commerce			
Passed through SC Sea Grant Consortium			
Coastal Stormwater Pond Sediments	11.RD	NA05NOS4191093	\$ 42,945
Total Department of Commerce			<u>42,945</u>
National Aeronautics and Space Administration			
Passed through The College of Charleston			
SC Space Grant Consortium	43.RD	NNG05G168G	1,906
Total National Aeronautics and Space Administration			<u>1,906</u>
National Science Foundation			
Passed through The College of Charleston			
Automatic Telescope	47.RD	AST-0507381	25,353
CCD Spectrophotometer	47.RD	AST-0115612	650
Hypercapnic Hypoxia Impacts Shrimp Immune Defenses	47.RD	MCB-0421929	8,540
Total National Science Foundation			<u>34,543</u>
Total Research and Development			<u>79,394</u>
<u>Student Financial Aid Cluster:</u>			
Department of Education			
Federal Supplemental Educational Opportunity Grant	84.007	P007A043769	94,111
Federal Work Study Program	84.033	P033A043769	40,148
Federal Perkins Loan Program	84.038	P038A73769	5,987
Federal Pell Grant Program	84.063	P063P060375	972,164
Academic Competitive Grants	84.375	P375A060375	52,585
National Science and Mathematics Access to Retain Talent Grant	84.376	P376S060375	24,786
William D. Ford Direct Loan Program	84.268	None	16,568,612
Total Department of Education			<u>17,758,393</u>
Total Student Financial Aid			<u>17,758,393</u>
<u>Other Programs:</u>			
Department of Education			
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A	P334A050032	224,578
Passed through the National Writing Project Corp.			
National Writing Project	84.928A	99-SC09	46,627
Total Department of Education			<u>271,205</u>
Department of Justice			
Passed through Rutgers University			
I-95 Domestic Security	99.999	2007-DD-BX-K135	13,740
Total Department of Justice			<u>13,740</u>
Department of Transportation			
Passed through Clemson University			
Guidelines for Longitudinal Pavement Marking Applications	20.205	1191-7557-223-2006376	6,168
Roadside Hazards	20.205	1109-7557-223-2005923	380
Total Department of Transportation			<u>6,548</u>
National Science Foundation			
Passed through Harvard University			
Collaborative Research	99.999	DEB-0732903	5,636
Total National Science Foundation			<u>5,636</u>
Total Other Programs			<u>297,129</u>
Total Expenditures of Federal Awards			<u>\$ 18,134,916</u>

THE CITADEL
The Military College of South Carolina
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Note 1 - Basis of Presentation

The accompanying schedule of federal awards includes the federal grant activity of The Citadel and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Loans Outstanding

The Federal Perkins Loan Program (CFDA Number 84.038) is administered directly by The Citadel and balances and transactions relating to the program are included in the loan fund of The Citadel's financial statements. The balance of loans outstanding under the Federal Perkins Loan Program was \$605,849 as of June 30, 2008.

The Federal Direct Student Loan program provides loan capital directly from the federal government (rather than through private lenders) to vocational, undergraduate, and graduate students and their parents. The loans are made directly from the federal government; therefore there is no loan balance recorded at the university level.

Note 3 - Matching

Under the Federal Work Study program, The Citadel matched \$7,020 for the year ended June 30, 2008 in addition to the federal share of expenditures in the accompanying schedule of expenditures of federal awards.

Under the Federal Supplemental Education Opportunity Grant program, The Citadel matched \$31,370 for the year ended June 30, 2008 in addition to the federal share of expenditures in the accompanying schedule of expenditures of federal awards.

Note 4 - Subrecipients

Of the federal expenditures presented in the schedule of expenditures of federal awards, The Citadel provided no federal awards to subrecipients.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Members of the Board of Visitors
The Citadel, The Military College of South Carolina
Charleston, South Carolina

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of The Citadel, The Military College of South Carolina (The Citadel) as of and for the year ended June 30, 2008, which collectively comprise The Citadel's basic financial statements and have issued our report thereon dated September 18, 2008. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of The Citadel Trust, as described in our report on The Citadel's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. Other auditors audited the financial statements of The Citadel Foundation and The Citadel Brigadier Foundation, as described in our report on The Citadel's financial statements. The financial statements of The Citadel Foundation and The Citadel Brigadier Foundation were not audited in accordance with *Government Auditing Standards*.

Internal control over financial reporting

In planning and performing our audit, we considered The Citadel's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purposes of expressing an opinion on the effectiveness of The Citadel's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The Citadel's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and other matters

As part of obtaining reasonable assurance about whether The Citadel's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of The Citadel in a separate letter dated September 18, 2008.

This report is intended solely for the information and use of the audit committee, management, and the federal awarding agencies and pass-through entities of The Citadel and is not intended to be and should not be used by anyone other than those specified parties.

Elliott Davis, LLC

Greenwood, South Carolina
September 18, 2008

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Members of the Board of Visitors
The Citadel, The Military College of South Carolina
Charleston, South Carolina

Compliance

We have audited the compliance of The Citadel, The Military College of South Carolina (The Citadel) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major Federal program for the year ended June 30, 2008. The Citadel's major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major Federal program is the responsibility of The Citadel's management. Our responsibility is to express an opinion on The Citadel's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about The Citadel's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on The Citadel's compliance with those requirements.

In our opinion, The Citadel complied, in all material respects, with the requirements referred to above that are applicable to its major Federal program for the year ended June 30, 2008.

Internal control over compliance

The management of The Citadel is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered The Citadel's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of The Citadel's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The Citadel's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purposes described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, and the federal awarding agencies and pass-through entities of The Citadel and is not intended to be and should not be used by anyone other than those specified parties.

Elliott Davis, LLC

Greenwood, South Carolina
September 18, 2008

THE CITADEL, THE MILITARY COLLEGE OF SOUTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2008

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of The Citadel.
2. No material weaknesses or significant deficiencies relating to internal control over financial reporting were noted during the audit.
3. No instances of noncompliance material to the financial statements of The Citadel were disclosed during the audit.
4. No material weaknesses or significant deficiencies relating to internal control over major federal award programs were noted during the audit.
5. The auditor's report on compliance for the major federal award program for The Citadel expresses an unqualified opinion.
6. The programs tested as major programs include:

Federal Student Aid Cluster:	
Federal Supplemental Educational Opportunity Grant	84.007
Federal Work-Study Program	84.033
Federal Perkins Loan Program	84.038
Federal Pell Grant Program	84.063
Federal Direct Student Loans	84.268
Academic Competiveness Grant	84.375
National Science and Mathematics Access to Retain Talent Grant	84.376
7. The threshold for distinguishing Types A and B programs was \$300,000.
8. The Citadel qualifies as a low-risk auditee under Circular No. A-133.

B. FINANCIAL STATEMENT FINDINGS REPORTED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS

None

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

THE CITADEL, THE MILITARY COLLEGE OF SOUTH CAROLINA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the year ended June 30, 2008

In accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, the following is the status of known material findings and recommendations from prior year audits:

None